

SENATE FINANCE COMMITTEE

April 7, 2015

9:20 a.m.

[9:20:43 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:20 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Randall Hoffbeck, Commissioner-Designee, Department of Revenue; Rick Halford, Former State Senator, Eagle River; Joe Paskvan, Former State Senator, Fairbanks; Hugh Short, Girdwood.

SUMMARY

CONFIRMATION HEARINGS:

ALASKA GASLINE DEVELOPMENT CORPORATION BOARD OF
DIRECTORS
DEPARTMENT OF REVENUE - COMMISSIONER

^CONFIRMATION HEARING: DEPARTMENT OF REVENUE - COMMISSIONER

[9:21:35 AM](#)

RANDALL HOFFBECK, COMMISSIONER-DESIGNEE, DEPARTMENT OF REVENUE (DOR), discussed his work history. He recounted that he arrived in Alaska in 1980 with plans to become a

park ranger after graduating from college with a degree in resource management. He related that due to a hiring freeze, he was unable to secure the work he had planned. He instead took a position doing land law adjudication under the Alaska Native Claims Settlement Act (ANCSA) and the Alaska National Interest Lands Conservation Act (ANILCA), where he worked for approximately 1.5 years looking at state and Native land rights claims. He then worked building houses, selling real estate, and doing appraisals; which he worked on for about two years until the market collapse in the mid-1980s. He relayed that he sold his business and took a position with the Municipality of Anchorage doing real estate appraisals, where he spent almost nine years as the supervisor.

Commissioner-Designee Hoffbeck shared that in 1992 he was hired as part of an audit team by the North Slope Borough to ensure their properties were being properly assessed after state cutbacks in the oil and gas tax division. He furthered that this team developed the audit program for the oil and gas property tax audits in the state. He noted that the state had been doing the audits previously, but the team reformulated the process. He concluded that he worked at the North Slope Borough until 1998, and had been the tax manager for the majority of the time.

Commissioner-Designee Hoffbeck revealed that in 1998 he was named as Parks and Beautification Manager by Anchorage Mayor Rick Mystrom, and worked in that position until 1999. He added that at the latter part of the mayor's term of office, he formed a company with Dudley Platt and Dave Walters (currently with BP) which bid on the tax support contract for DOR. His company was awarded the contract and worked on it for approximately two years, at which time the state assessor retired and Commissioner-Designee Hoffbeck was hired as the state Petroleum Property Assessor. He clarified that he held the position from 2001 to 2006, and during that time was a primary author of the rewrite of the administrative regulations under AS 43.56. Additionally during that time, he spent two years on the stranded gas pipeline negotiations under the Murkowski Administration.

[9:25:46 AM](#)

Commissioner-Designee Hoffbeck continued to recount his work history, and described how he had tried to reform several of Alaska's property tax laws while working as the

state petroleum property assessor. He furthered that during that time DOR went to a production-based upstream property tax, which was originally tested for three years and extended to a fourth year after being incorporated into the language under stranded gas. He commented that after the test was over, agreement was not reached by all parties involved and the model went back to a more standard cost-based approach for valuing properties. He related that during the same time there was a Trans-Alaska Pipeline System (TAPS) settlement agreement for three years but the fourth year the state was unable to reach settlement.

Commissioner-Designee Hoffbeck explained that he was hired by the North Slope Borough in 2006 as finance director, a job he held until 2011. The scope of the job included serving as chief investment officer, chief fiscal officer, debt manager, treasurer, and budget manager. He commented that during that time, the borough received three ratings upgrades from the rating agencies, primarily due to the close working relationship the borough had with the state and the revenues generated by the work that was done by the state. He added that they were able to increase revenues, decrease debt, decrease taxes, and increase savings. He listed the scope of other duties to include being in charge of accounting, annual audits, grants, benefits, risk, insurance, purchasing, shipping, receiving, records management, and tax audit and assessing. He remarked that the scope of the finance director position was greater than that of the commissioner of DOR.

Commissioner-Designee Hoffbeck spoke of being hired as chief of staff to North Slope Borough Mayor Charlotte Brower in 2011. He related that he had retired in 2012 and completed a seminary degree, with the intention of going in to full-time ministry. He recounted that Governor Walker had asked him if he was interested in working as commissioner of DOR. After some consideration, he accepted and was excited about bringing the gas line project to fruition.

[9:29:40 AM](#)

Co-Chair MacKinnon drew the committee's attention to the duties and responsibilities of the commissioner for the Department of Revenue under AS 43.05.010. She highlighted three of the duties listed in the statute:

4. keep a record of all departmental proceedings, record and file all bonds, and assume custody of returns, reports, papers, and documents of the department;

6. keep a record of each order, process, and certificate issued by the commissioner, and keep the record open to public inspection at all reasonable times;

7. hold hearings and investigations necessary for the administration of state tax and revenue laws;

Co-Chair Kelly asked Commissioner-Designee Hoffbeck to comment on his strategies for maximizing state revenue. Commissioner-Designee Hoffbeck commented that there were no easy decisions or simple solution. He referred to the price and volume of oil production and stressed the need to look at a combination of other revenue sources. He opined that there were some difficult discussions needed with regard to state expenditures and determinations as to what areas were considered to be part of the state's core function. He emphasized the need for public understanding that the legislature and administration had made the budget as lean as possible while focusing on core functions.

Commissioner-Designee Hoffbeck cited continued spending of state savings as a finite funding option that would not get the state to a final solution, and reiterated the need to look at other revenue sources. He mentioned utilizing revenue earnings, and specified a structured form of spending investment earnings from the permanent fund as an option. He reported that DOR was putting together a model to examine several scenarios of how the state could use the various investment earnings, including the Percent of Market Value (POMV) proposal, capping the permanent fund, or various other things. He detailed that the model was not dissimilar from a model recently presented by David Teal, Director, Legislative Finance Division; but would contain more robust forecasting and more options. He named other revenue sources including income tax, sales tax, and statewide property tax as possibilities to examine; and characterized them as "standard government tools." He mentioned a bill being worked on in the House of Representatives that would look at reduction of indirect costs. He suggested there was a package of solutions, and

surmised it would take three of them in order to make a balanced budget.

9:33:52 AM

Co-Chair Kelly asked if Commissioner-Designee Hoffbeck was satisfied with the way the state was investing state accounts in the short and long-term, and whether he had different strategies to make the state's cash more liquid. Commissioner-Designee Hoffbeck noted that he had asked his staff to look at the efficient frontier for investing the Constitutional Budget Reserve (CBR), to see if there was an opportunity to use some equities within it. He explained that the CBR was set up to function as an asset preservation account, and had been primarily been invested in some form of fixed income type investments. He added that the sub-account was the more aggressive account with equities in it. He relayed that there was statutory language specifying that the commissioner of DOR, while investing in the sub-account, must assume the funds would not be used for five years. He added that the situation no longer applied and the funds were moved from the sub-account in to the main account. He reiterated that DOR was examining whether there was an opportunity within the main account to get more return than just fixed incomes. He revealed that DOR had also looked at how much the state held in cash on a given day for paying bills and whether there was opportunity to reduce the amount in order to keep more invested. He qualified that any short-term liquid investments had not paid much. He referred to proposals by DOR economics staff that would entail using current savings as collateral to borrow against, and then use the borrowed funds to invest as a revenue source. He referred to current market volatility and advised that DOR was not ready to go forward with the proposals at that time.

Co-Chair MacKinnon asked Commissioner-Designee Hoffbeck to recount his experience with maximizing revenue as opposed to asking for additional revenue sources. Commissioner-Designee Hoffbeck explained that in his position as finance director for the North Slope Borough, he rewrote investment policies to allow for more aggressive investing than was previously in place. He added that he would rely primarily on the experts on staff as well as consultants. He acknowledged that he was not a banker, but that DOR had people who were, and he would primarily rely on their expertise.

[9:37:31 AM](#)

Senator Dunleavy referenced the aforementioned revenue models and asked if Commissioner-Designee Hoffbeck would be seeking tolerance data to reflect the point at which residents of Alaska would depart the state after taxes were imposed, which he called the "tipping point." Commissioner-Designee Hoffbeck related that he had engaged in such discussion with the economics group and to the extent that it would be possible, (the issues would be examined) but not as part of the base revenue model. He pointed out that such data was speculative and it was hard to objectively point to what the tipping point was. He described that DOR had become keenly aware of what constituted new money versus recirculated money. He clarified that if the state had a sales or income tax, it would bring in a little new money (i.e. sales tax from tourism, income tax from out of state employees) but the majority of that money would be recirculated within the state and would not really stimulate the economy. He qualified that the two items that would stimulate the economy were investment earnings (currently being saved and not part of the economy), and our savings account; both of which were new monies. He discussed the market collapse that occurred when he was appraisal supervisor in Anchorage in the 1980s, when people lost 75 percent of land value and it took 10 years for the economy to recover. He recounted that this experience made him aware that the state had to be a part of the solution, rather than the problem. He continued that if oil prices remained low in the following year or two, industry would have to pull back. He referenced the promised investment under SB 21 [oil tax legislation from 2013], and stated that industry had kept that promise. He further stated that at some point the numbers would be such that everyone would have to pull back. He summarized that at that point in time the state would need to balance the budget and look at new monies in order not to add to the problem of an economy that was retracting.

Senator Dunleavy expressed interest in the aforementioned budget modelling and wondered how far the budget could be reduced, at what point taxes would be imposed on the people of Alaska, and in what form. He asked if Commissioner-Designee Hoffbeck thought that enough cuts had been made thus far. He added that the governor had discussed reducing the budget by 16 percent and others had discussed 25

percent. Commissioner-Designee Hoffbeck commented that the Governor had a target of a 25 percent, which had not yet been reached. He stated that although there had been some very difficult cuts made, specifically in the Senate Finance Committee the previous week, he considered most of the cuts to be "fine tuning within government." He furthered that the next step was program cuts, discussion was necessary, and there was still a ways to go.

Senator Dunleavy asked if Commissioner-Designee Hoffbeck thought that government could shrink a little bit more. Commissioner-Designee Hoffbeck observed that there were areas that were not part of core government that were still being funded, and it was also a question of public tolerance.

[9:42:56 AM](#)

Vice-Chair Micciche noted that the total earnings in the state were just over \$17 billion. He mentioned a "\$4 billion issue" and remarked that there was a very small number of working Alaskans relative to the number of workers in other states. He clarified that he did not advocate an income tax, and hoped that significant reductions followed by an oil price increase would help the state's budget shortfall. He estimated that the possible income tax rate would be 23 percent in order to cover the \$4 billion. He stated that a hypothetical 23 percent tax rate was nearly twice the highest taxed state in the country, and was five times the average in the lower 48. He wondered if Commissioner-Designee Hoffbeck would aggressively and publicly support the legislature's current and future budget reductions.

Commissioner-Designee Hoffbeck replied that budget reductions were the initial step in the process. He stated that he would probably not agree with all legislative decisions, and understood that some of the reductions would have significant personal impact for Alaskans. He shared that he had committed to meet with each of the employees that would be laid off from DOR. He agreed that he would indeed continue to support the idea that budget cuts needed to be made first.

Vice-Chair Micciche wondered if Commissioner-Designee Hoffbeck would be pursuing a hedging strategy in investments, and if so, which division of DOR would begin

the process. Commissioner-Designee Hoffbeck replied that the Treasury Division would begin the hedging strategy, led by Gary Bader, Chief Investment Officer. He shared that there had been general conversations about hedging, but it currently was dealt with through savings, and as such there would be no additional hedging costs.

Vice-Chair Micciche asked if there was an intent to engage with Alaskans on the current fiscal situation. He shared that he represented a very conservative district; many of his constituents expressed that there were not enough budget reductions, yet others felt that the reductions were too extreme. He felt that the constituent feedback represented a gap in understanding of the current fiscal situation. He remarked that there were some savings and reserves, which were designed for budget crises. In order to consider solutions, he felt that Alaskans should be well informed. He added that he hoped it would be a team approach to impart the information, rather than the legislature being the sole source. Commissioner-Designee Hoffbeck replied that he hoped that the administration and the legislature could work together during the interim to present the various solution options that were available. He did not believe that attacking and placing blame would help the situation.

[9:48:35 AM](#)

Senator Hoffman announced that the governor had halted some of the mega-projects in the state. He wondered when there would be recommendations about what would be done with the projects; such as the Susitna Dam, Knik Arm Crossing, Juneau Access Road, and the commercialization of gas. He queried the specific timeframe within the following 3.5 years as to when there would be project recommendations and a follow up on the gas line. He wondered if there would be debt financing to commercialize the gas, and felt that the gas line was the most important project. He also wondered how to utilize the state's cash flow over the next two years, in order to get the project in the right direction. Commissioner-Designee Hoffbeck replied that DOR was formulating a fiscal package, rather than focusing on individual components, because it was important to see how the projects related to each other. He furthered that the capital project funding would be outlined in the fiscal package. He did not know when prioritizations of the

projects would occur, but those considerations would be factored in to the fiscal package.

Senator Hoffman wondered if there would be a formulated picture by the following January. Commissioner-Designee Hoffbeck replied in the affirmative.

Senator Hoffman wondered if the debt financing of the project would also be formulated into the fiscal package. Commissioner-Designee Hoffbeck replied that there would be a financing option study done by Lazard Frères & Co. LLC (Lazard) on how to finance the various projects.

Senator Hoffman discussed the permanent fund and wondered whether the state could continue to afford inflation-proofing. He asked Commissioner-Designee Hoffbeck to comment on the administration's perspective. Commissioner-Designee Hoffbeck provided that the inflation-proofing component was largely driven by the original investment structure of the permanent fund, which was in fixed-return investments including treasuries and bonds, and was an essential part of the investment strategy. He continued that because the permanent fund was currently invested in equities and alternative investments, inflation-proofing was almost automatic, based on the total value rather than the realized earnings. He stressed that the inflation-proofing would continue to occur if the fund was managed as a POMV fund versus realized gains. He concluded that inflation proofing still put money back in to the corpus of the fund, but was probably not critical going forward.

[9:54:08 AM](#)

Senator Bishop appreciated the nominee's efforts to raise the bond rating while working on the North Slope, and recounted that those efforts helped to pass prior legislation. He asked if Commissioner-Designee Hoffbeck had worked under the Stranded Gas Development Act (SGDA). Commissioner-Designee Hoffbeck replied in the affirmative.

Senator Bishop asked if the nominee was familiar with the previous session's legislation, SB 138 [oil and gas legislation passed in 2014]. Commissioner-Designee Hoffbeck replied in the affirmative.

Senator Bishop wondered if there were similarities between SGDA and SB 138, and whether he preferred one over the

other. Commissioner-Designee Hoffbeck responded that SB 138 was "healthier" than SGDA, because SB 138 was better formulated. He shared that he had been in negotiations for the SGDA pipeline, when there was a specific stated goal of getting the pipeline "at all cost" yet there was no bottom line or "walk-out strategy." He recounted that working under tight timelines made it nearly impossible to negotiate a good deal for SGDA, and the legislature quickly rejected the plan. He opined that the structure of SB 138 was better, but still relied heavily on the responses of BP, ConocoPhillips, and ExxonMobil. He felt that SB 138 reflected many of the lessons learned from SGDA.

Senator Bishop queried the greatest current challenges of the Child Support Services Division. Commissioner-Designee Hoffbeck responded that the greatest challenge before the legislature [within SB 51] was drafting the specific language relating to child support from individuals residing in foreign countries, so the division could collect funds under a treaty. He shared that the Child Support Services Division was his lowest-maintenance division, because it had strong leadership. He felt that the biggest problem of the division was staff retention, because it was a very difficult job. The turnover was sometimes 30 percent a year.

Co-Chair MacKinnon asked if the nominee could return later in the day for more questions from the committee. She shared some concerns about the management of DOR, and felt that those issues should be addressed. Commissioner-Designee Hoffbeck replied that he would be available later in the day.

Senator Olson commented that he was very impressed with the accomplishment of obtaining a seminary degree while working as financial director on the North Slope. He made a biblical analogy about the story of Jonah and the Whale.

Co-Chair MacKinnon set aside the résumé of Commissioner-Designee Hoffbeck, and would revisit the conversation later in the day at 3:00 p.m.

^CONFIRMATION HEARING: ALASKA GASLINE DEVELOPMENT CORPORATION BOARD OF DIRECTORS

[10:00:45 AM](#)

Co-Chair MacKinnon directed the committee's attention to AS 31.25.020:

(a) The corporation shall be governed by a board of directors consisting of

(1) five public members; and

(2) two individuals designated by the governor that are each the head of a principal department of the state, except that the commissioner of natural resources and the commissioner of revenue may not be designated to serve on the board unless the project for which a license is issued under AS 43.90 has been abandoned or is no longer receiving the inducements in AS 43.90.110 (a) or the commissioner of natural resources and the commissioner of revenue are no longer signatories on a valid contract under AS 43.90.

(b) Public members of the board shall be appointed by the governor and are subject to confirmation by the legislature. When appointing a public member to the board, the governor shall consider an individual's expertise and experience in natural gas pipeline construction, operation, and marketing; finance; large project management; and other expertise and experience that is relevant to the purpose, powers, and duties of the corporation. Public members of the board serve staggered five-year terms. A public member serves at the pleasure of the governor. A vacancy shall be filled in the same manner as the original appointment.

[10:01:51 AM](#)

RICK HALFORD, FORMER STATE SENATOR, EAGLE RIVER, commented that it was possible to gain a fantastic education on issues while being a member of the legislature, as he once was. He mentioned the National Conference of State Legislatures (NCSL) and other institutions. He related that he started his legislative career in the House Resources Committee 35 years prior, and the first oil and gas issue before him was the extension of the interim tariff on the Trans-Alaska Oil Pipeline. He outlined the scope of inquiry for a legislator to fully understand an issue. He relayed that he received a degree from Alaska Methodist University, with a Minor in Economics and Majors in History and

Political Science. He related the challenges in working 24 years in the legislature. He recounted serving on a gas line committee in the 1990s, and chairmanship of the BP/Arco Merger Committee. He listed his previous roles in the legislature: the House Resources Committee, the Senate Resources Committee, and the role of Majority Leader. He highlighted continuous work with the oil and gas industry. He discussed the Alaska Liquid Natural Gas project (AKLNG), and called it a unique opportunity which he hoped would go forward. He referred to the Alaska Standalone Pipeline (ASAP) as "strictly a backup project." He stressed the importance of the branches of government working together; and commented on the massive scope, financial commitment, and importance of the [AKLNG] project.

[10:06:14 AM](#)

Senator Dunleavy asked what the impact of HB 132 [current legislation relating to policy direction of AGDC] would be if it was not vetoed. Mr. Halford stated that he did not know, but opined that the greatest positive impact was people working together to get a solution from the executive and legislative branches of government. He thought the issue of the prioritization of the AKLNG project and the ASAP project would be a source of disagreement. He again emphasized the importance of moving forward with compromise and working towards a common cause. He highlighted the importance of the attitudes of the executive branch and legislative leadership to try and be on track with a major project going forward, and a reasonable backup project. He commented that an investment in differences would be a lost investment.

Co-Chair MacKinnon asked if Mr. Halford had signed a confidentiality agreement. He answered in the negative, and clarified that he was not necessarily opposed to signing such an agreement, and thought it was necessary. He related that he had signed a confidentiality agreement in the past that had allowed him to view the business plans of BP and Arco in the merger debate.

Co-Chair MacKinnon mused that it was difficult to make a decision on whether one route was better than another if one did not know what the other route was. Mr. Halford concurred.

[10:08:43 AM](#)

Co-Chair Kelly asked Mr. Halford if he could discuss his view of world markets, and if the world markets on liquid natural gas (LNG) were "inviting" to a \$50 billion or \$60 billion project or if they precluded a project of that size. He further asked if the provisions in SB 132 were appropriate or were flawed. Mr. Halford opined that there were huge difficulties in getting a project the size of AKLNG to move forward. He mentioned the Point Thomson Oil and Gas Project, and expressed hope for its success. He remarked that the market had been much better at times in the past. He observed that going to LNG provided the most flexibility. He commented on the numerous issues involved with putting that much liquid natural gas into the market. He referred back to the challenges of a divided perspective on the project.

Co-Chair Kelly asked Mr. Halford to comment on the structure of SB 138. Mr. Halford asserted that "the structure of the process is the structure of the partners and the whole package."

[10:12:17 AM](#)

Senator Dunleavy asked what role AGDC would play in moving into construction of a gas pipeline if HB 132 was vetoed. Mr. Halford expressed that he did not know the answer, but reaffirmed that the relationship of the legislative and executive branches was more important than the components and terminology of an individual bill. He considered that if one could maintain a stream of information that was logical on an economically viable alternative at minimal cost, it made sense. He furthered that if it was a competitive project it would create problems. He discussed the issue of pipe strength, and recalled that it brought up questions regarding such things as gas conditioning plants and pump stations; which were tremendously expensive to research and answer. He suggested that there was a large sum of money for the purpose of researching and answering questions, the answers to which might never be utilized.

[10:14:14 AM](#)

Senator Hoffman asked what the roles of the Department of Natural Resources (DNR) and the Department of Revenue (DOR) would be in commercializing Alaska's natural gas. Mr. Halford underlined that DNR knew more of the project

details and confidential information than any other party. He surmised that DNR would be a major player and the question of marketing would be in its hands as well. He reiterated that he had not yet signed a confidentiality agreement, reasserted that he would sign one, and maintained that he did not have the details of what such an agreement would include. He spoke to the need for a level of trust between the administrative branch and legislative branch.

Senator Hoffman restated his question about the role of DOR. Mr. Halford asserted that DOR would have the tax structure and benefit structure pieces of the project. He suggested that trust had different modalities. He referred back to difficult economic times while he served in the legislature, and hoped that the current body would do a better job than was done previously.

Senator Dunleavy referred to competing philosophies on the gas pipeline, and wondered if Mr. Halford saw the main purpose of the project to bring inexpensive gas to Alaskans, or as a revenue enhancement for export. He commented that the market for inexpensive gas to Alaskans was something the public hoped for, but observed that the real benefit of the gasline would be revenue to the state, which would in turn benefit Alaskans.

Senator Dunleavy asked Mr. Halford to comment on an alternative in the case that the economics of a gasline did not pan out. Mr. Halford stated that there was no way to subsidize a project of its magnitude if it was not economic. He discussed the economics of the project, and suggested that the state had little control over the outcome, which was largely determined by price changes. He described himself as an "economic determinist."

[10:19:26 AM](#)

Vice-Chair Micciche referred to the three individuals with a great deal of expertise who were removed from the AGDC board, and asked if Mr. Halford felt comfortable disagreeing with the governor publicly. Mr. Halford shared his discomfort in disagreeing with the governor, yet avowed he would communicate honestly with the governor. He asserted his faith in the governor, and stated he also had faith in the process.

Vice-Chair Micciche referred to a compass piece that "dropped a bomb on the AKLNG process." He wondered if the piece was a good entrance into a relationship with the legislature on the project. Mr. Halford qualified that he did not think the governor had anticipated the outcome of the piece, and mentioned the steep learning curve to which the governor was subjected to during his administrative transition. He commented on the forthrightness of the governor and the resultant concerns with his candor.

10:22:09 AM

Vice-Chair Micciche referred to the costs of the AKLNG project, and the level of aggregate risk. He mentioned the governor referring to a greater than 51 percent proportion of ownership which, he asserted, left the people of Alaska responsible for a very expensive project which was dependent upon the price of energy globally. He asked Mr. Halford if he thought Alaska could afford the level of risk on such a large project. Mr. Halford shared that he was not comfortable with the level of risk, and likened the scenario to putting too many eggs in one basket. He discussed revenues including the permanent fund. He discussed the confusing notion of pondering a pipeline without considering a conditioning plant or liquefaction plant. He discussed project costs and scope. He suggested that all the questions had not been answered.

Vice-Chair Micciche admitted that the AKLNG project was an ambitious project, but the alternative ASAP project carried with it numerous inefficiencies. He asked if AKLNG was not viable, did Mr. Halford see any way that the ASAP project (or other) would be economically feasible. Mr. Halford stated that the problems were magnified substantially.

Co-Chair MacKinnon thanked Mr. Halford for his years of public service. She asked Mr. Halford if he had experience constructing a natural gas pipeline. Mr. Halford answered in the negative.

Co-Chair MacKinnon asked Mr. Halford if he had experience operating a gas pipeline or marketing gas. Mr. Halford stated that he did not.

Co-Chair MacKinnon referred to the pipeline authorization bill and noted that the legislature had endeavored to make

sure people had expertise and the pipeline and its benefit to Alaska would outweigh any political participation.

[10:26:53 AM](#)

JOE PASKVAN, FORMER STATE SENATOR, FAIRBANKS, related that he had been nominated for the Board of Directors for AGDC. He shared his personal history as a lifelong Alaska resident and emphasized his strong connection to the state. He discussed his family. He related that he had been an attorney in private practice for over 30 years, and had been a rotary member for approximately 25 years. He discussed other affiliations and memberships. He referred to his experience as a state senator. He related that he had been nominated as a public member under AS 31.25.020. He mentioned his experience with construction, including large state contracts and disputes. He added that he had retained technical consultants to assist his clients' interests. He expressed understanding for construction schedules and had retained engineers to advise on projects and timetables. He related that he had been professionally involved with construction contracts for nearly all his professional life. He informed that he was on two AGDC subcommittees, the Technology Committee (led by Dave Kruz) and the Commercialization Committee (led by John Burns). He outlined the purpose of the subcommittees to be information-gathering rather than taking action. He discussed the overarching task of AGDC (as defined by statute) and paralleled his professional experience in securing and engaging technical advisors. He briefly described the AKLNG project, a large diameter gas line, and stated it had the probability of the biggest success for Alaska. He outlined the ASAP project, a 36" gas line, and described it as the backup project that was an economically viable alternative if AKLNG faltered.

[10:31:54 AM](#)

Mr. Paskvan continued his presentation to the committee, noting that AGDC did work that advanced both projects; giving examples such as data sharing and framework, right-of-way work, mapping, surveys, and environmental impact statements.

Senator Bishop referred to the mention of trust by the previous testifier, and asked Mr. Paskvan if he would advise the governor to proceed with the AKLNG project (and

shelve the ASAP project) if it was revealed to be the most propitious. Mr. Paskvan answered in the affirmative and clarified his stance that the state's greatest potential for economic return was with the AKLNG project.

10:34:08 AM

Senator Dunleavy asked what the impact would be if HB 132 was not vetoed. Mr. Paskvan ventured that the legislation would restrict the ASAP project to production of 500 million cubic feet of gas per day. Senator Dunleavy asked if Mr. Paskvan agreed that TransCanada did have a role, and furthered under the AKLNG process it had an ownership role. He elaborated that ultimately the determination of whether the AKLNG project would proceed to the Front End Engineering & Design (FEED) stage would be made in the summer of 2016. He stressed the importance of understanding that the AKLNG project could be a positive net-present value project, and it could still be determined not to be built. Under this scenario, it would beg the question of a backup project to explore. He emphasized the importance of the state doing due diligence to ensure that AKLNG was a positive net-present value project.

Senator Dunleavy asked if Mr. Paskvan philosophically agreed with TransCanada's role in the project. Mr. Paskvan referred to TransCanada's part in the 25 percent ownership of the AKLNG project, and commented that it was the law regardless of his political feelings about it. He disclosed that one of the reasons he had wanted to be on the AGDC board was because he had considered it to be non-political; rather, he had considered the intent of the committee to pursue due diligence in looking at what projects were in the best interest of Alaska getting low gas prices and revenue in a non-political context.

Co-Chair Kelly asked Mr. Paskvan to discuss SB 138, and the structure and potential flaws of the bill. Mr. Paskvan was unsure if it was his position to look at strengths and weaknesses of the legislation. He recounted that he and the other prospective board members had but one meeting on the subject and had not explored all the details. He suggested that the policy decisions needed to come from the legislative branch, and relayed that the board members had operated within the policy when they previously met.

Co-Chair MacKinnon asked if Mr. Paskvan had signed a confidentiality agreement so that he could understand the project direction from the previous administration versus what was being presented currently. Mr. Paskvan stated that there had previously been discussion of such an agreement, it was his understanding that it was in the draft stage, and he would sign it when it was completed. He added that it was his expectation that there would be a balance between open and transparent government and appropriate necessary confidentiality.

Co-Chair MacKinnon asked if Mr. Paskvan favored the Southcentral terminus option for the gasline, or if he was still considering the Richardson Highway route. Mr. Paskvan asserted that he was not favoring politics of one route over another, and commented that the ASAP line had planned to go into Southcentral for a number of years. He reiterated that he wanted to get to a project that had a "positive net present value."

[10:39:52 AM](#)

Vice-Chair Micciche asked how Mr. Paskvan felt about the concept of Payment in Lieu of Taxes (PILT) on the structure of the gasline. Mr. Paskvan commented that the Fairbanks Northstar Borough had, for many decades, relied significantly upon the property taxes on the TAPS facilities that went through the borough. He wondered if PILT was an AGDC issue.

Vice-Chair Micciche clarified that his question regarded the value of the pipeline over time, and wondered if Mr. Paskvan could see a way that PILT could work while satisfying the needs of impacted local communities. Mr. Paskvan stated that he considered the judicial system to have followed an appropriate process using evidence in determining the property value of TAPS property.

Senator Hoffman asked Mr. Paskvan what role he saw AGDC, DNR, and DOR playing in commercializing Alaska's gas. Mr. Paskvan stated that DNR was required by law to market gas. He added that DOR would be working with AGDC for purposes of assessing the revenue streams and making sure the state had a positive net present value for any project the state would advance. He furthered that in these economic times the state could not subsidize AGDC's project.

Co-Chair MacKinnon asked if Mr. Paskvan had individual experience in building or constructing a natural gas pipeline. Mr. Paskvan answered in the negative.

Co-Chair MacKinnon asked if Mr. Paskvan had individual experience in operating a gas pipeline or marketing gas. Mr. Paskvan answered in the negative.

[10:44:18 AM](#)

AT EASE

[10:44:34 AM](#)

RECONVENED

HUGH SHORT, GIRDWOOD, outlined his priorities as a board member of AGDC: competitively priced and reliable in-state gas; commercialization of North Slope gas resources through the sale of LNG to global markets and access for in-state demand; creating jobs for Alaskans in exploration, production, development, and transportation of natural gas; increasing opportunities for Alaska-based businesses; providing additional revenues to the State of Alaska; and building infrastructure for the development of on-shore and off-shore oil and gas exploration and production.

Mr. Short outlined his background and qualifications for a position on the board of AGDC. He shared that he had a career in business and finance, most recently as chairman and CEO for the PT Capital family of companies. He related that PT Capital was in the midst of building a private equity firm that focused on investments and small to medium market companies in Alaska, Canada, Iceland, and Greenland. He commented on the unique nature of the company, as traditional private equity investment had previously been done from outside of the state. He furthered that he had built the company anchored by one of the largest sovereigns in the world, with one of the most pristine reputations, and surrounded by other well-regarded investors. He added that additionally, one of the company's subsidiaries (PT Securities) was the most northern Financial Industry Regulatory Authority (FINRA) and regulated Securities and Exchange Commission registered broker-dealer investment banks in North America. He discussed the services provided by PT Securities, and mentioned the outcome of further development of a strong financial services sector in Alaska.

Mr. Short discussed his over two-year chairmanship of the Alaska Industrial Development and Export Authority (AIDEA), and pointed out the appropriation of over \$530 million in capital and associated contributions by partners. He added that the board had approved due diligence on an additional \$295 million in infrastructure development projects, including the first investments in on-shore and off-shore drilling rigs. He mentioned his chairmanship of the Alaska Energy Authority (AEA), and his responsibility for the implementation of the Susitna-Watana Hydroelectric project. He reminded the committee that it was a \$5.19 billion project, and as chairman he was responsible for implementation of the Federal Energy Regulatory Commission (FERC) process as well as licensing and construction. He discussed his achievements as chairman of AEA and AIDEA; which included the institution of regular performance evaluations, and tying key performance metrics to overall organizational goals.

Mr. Short related that as president and CEO of Alaska Growth Capital, he was responsible for the deployment of \$240 million of capital and financing for the acquisition construction of telecommunications networks for GCI and a high-cost arctic rural build-out. In addition, he was responsible for the financing of businesses that worked in Alaska's oil, mining, tourism, retail, logistics, and transportation industries. He linked the activities of the businesses to the core natural resource exploration and production that fueled the state.

[10:48:22 AM](#)

Senator Hoffman disclosed that Mr. Short was his son-in-law and that they did not share any business ventures.

Co-Chair MacKinnon referenced AS 31.25.020 and surmised that Mr. Short had explained his relevant financial experience and work in the markets.

Senator Dunleavy asked why Mr. Short wanted to be a part of the AGDC board. Mr. Short thought it was an honor and a rare opportunity to build an important piece of infrastructure for the state, and considered his background appropriate for creating the "next big infrastructure" that would anchor the state's economy for the next century.

Co-Chair MacKinnon asked if Mr. Short believed there were alternate routes for a pipeline terminus still on the table. Mr. Short relayed that currently AKLNG was contemplating a southern crossing of Cook Inlet to Nikiski, after evaluation of Point MacKenzie as an appropriate crossing. He opined that AGDC needed to keep focused on the Cook Inlet crossing. He pointed out that the ASAP project currently tied into the ENSTAR natural gas line, in to Mat-Su; and he supported both of those routings.

Co-Chair MacKinnon asked Mr. Short to characterize the risk to the state of Alaska as it continued to move forward with two competing projects without yet knowing the economics of AKLNG, which would provide the lowest-cost energy to Alaskans. Mr. Short commented that he looked forward to discussions with Lazard regarding their initial assessment of bonding and appropriate risk to the state. He furthered that the state did not own any gas and must therefore work with its partners to access the gas and get the royalty and production share to market. He considered the best path forward to focus on AKLNG, and thought that AGDC was on the right track with the project.

Co-Chair MacKinnon asked if Mr. Short had signed a confidentiality agreement in order to understand what the previous administration had proposed. Mr. Short conveyed that he had participated in a governance committee meeting at which the attorney general had been expeditiously tasked with providing the board with a confidentiality agreement to sign. He clarified that the agreement had not yet been provided.

Co-Chair MacKinnon asked if Mr. Short had ever been involved in constructing a natural gas pipeline. Mr. Short responded in the negative.

Co-Chair MacKinnon asked if Mr. Short had experience marketing a gas pipeline. Mr. Short responded in the negative.

Co-Chair MacKinnon ADVANCED the names of Rick Halford, Joseph Paskvan, and Hugh Short in accordance with AS 39.05.080 and recommended the appointments be forwarded to a joint session for consideration. There being NO OBJECTION, it was so ordered.

[10:52:58 AM](#)

AT EASE

[10:54:36 AM](#)

RECONVENED

Co-Chair MacKinnon commented that the committee would recess until 3:00 pm that day, and at that time take up the confirmation of Commissioner-Designee Hoffbeck.

[10:54:57 AM](#)

RECESSED

[3:05:48 PM](#)

RECONVENED

^CONTINUATION OF CONFIRMATION HEARING: DEPARTMENT OF REVENUE - COMMISSIONER

[3:06:08 PM](#)

Co-Chair MacKinnon asked Commissioner-Designee Hoffbeck what challenges he foresaw in implementing and collecting the marijuana excise tax. She wondered if he saw any cash management challenges, and asked at what point the state would receive the tax revenue to include in the revenue forecast book. Commissioner-Designee Hoffbeck surmised that compliance would be the biggest challenge. He discussed other states who had previously legalized medical marijuana and used databases to work from; and noted that Alaska did not have such a tool, which would add to the challenge. He spoke to the federal prohibition on the banking of marijuana funds, and wondered how DOR would receive them from individuals. He commented that it would be a year or two until a positive tax would register, depending the structure of the law as well as how much the state would need to modify existing systems to implement the tax. He remarked that much of the information was speculation thus far, since it was not known what the tax would be.

Co-Chair MacKinnon asked who would be reviewing the issue of how to collect the marijuana excise taxes. She wondered when the committee would be able to see a report outlining her previous questions. Commissioner-Designee Hoffbeck replied that the team reviewing the excise tax was led by Ken Alper, the DOR tax division manager. He was unsure of when there would be a plan ready for committee perusal, but agreed to get back to the committee with the information.

Co-Chair MacKinnon continued to discuss marijuana excise taxes. Commissioner-Designee Hoffbeck thought it would take a year of implementation before seeing revenues from marijuana excise taxes.

Co-Chair MacKinnon pondered that commercialization of marijuana would not happen for a year, as licensing and registration had to happen first.

3:08:56 PM

Vice-Chair Micciche asked if Commissioner-Designee Hoffbeck had contacted other states to consult on dealing with difficult fiscal situations, and whether or not he was open to the idea. Commissioner-Designee Hoffbeck related that he had looked at what other states had done; and although he had not contacted any directly to solicit help or solutions, he was open to doing so. He commented that most other states had a more diverse tax base, where Alaska was heavily dependent upon one industry. He described Alaska as having limited its options by pulling away from other revenue sources when oil was so profitable. He asserted that the state would need to re-create the other revenue options over the next year.

Co-Chair MacKinnon asked if Commissioner-Designee Hoffbeck had any plans for moving forward aside from taxes. Commissioner-Designee Hoffbeck reiterated his statement that there was no "magic bullet" or single solution to the problem of declining revenues; rather, it needed to be a combination of various things. He mentioned investment earnings, encouraging additional investment in the state (as was done in SB 21), the state's savings, working for a gasline, and taxes as options for revenue.

3:11:52 PM

Senator Dunleavy commented on the relatively small population of Alaska and its large area with little infrastructure. He mused that laws and regulations over time were contributing much of the cost of government in Alaska. He wondered if Commissioner-Designee Hoffbeck foresaw himself or the governor's cabinet considering reducing budget through examining such laws and regulations. Commissioner-Designee Hoffbeck was not aware that a discussion of laws had come up yet, however there

was a subcabinet group that was examining the relationships between departments and areas where consolidations could occur and more efficiencies could be gained. He thought the concept of examining laws was a great idea.

Senator Dunleavy shared that he had been working with the educational establishment to identify what items they could remove to relieve costs. He remarked on the myriad of laws and regulations imposed by the United States Department of Education, the federal government, the state department of education, and the state legislature that incurred costs. He strongly urged Commissioner-Designee Hoffbeck to examine laws and regulations that may have driven costs to the state.

[3:15:00 PM](#)

Co-Chair MacKinnon mentioned a \$4 billion draw from the CBR, previously referenced by Commissioner-Designee Hoffbeck in a press release. She referenced the 2014 Fall Revenue Forecast, which had indicated the CBR would not be exhausted until the year 2025. She asked Commissioner-Designee Hoffbeck if he had a new target date for the CBR's depletion, and if he could discuss the \$4 billion draw. Commissioner-Designee Hoffbeck stated that the target date would be driven in part by the actions of the legislature with regard to reducing the size of the budget. He furthered that 2019 was the outside date for how long state savings would last. He clarified that the projected date did not assume use of investment earnings. He continued that the projection was the genesis of moving the \$4 billion in equities out of the sub-account, selling them and reinvesting them in fixed-incomes in the main CBR. He referenced statutory language that specified that for the Commissioner of Revenue to invest within the subaccount, they must assume that the monies would not be needed for five years. He asserted that the assumption could no longer be made, and so the equities were sold and reinvested in the CBR as fixed-incomes.

Co-Chair MacKinnon mentioned that the spring forecast had just been released, and noted that DOR had projected increased investment earnings. She asked if Commissioner-Designee Hoffbeck could speak to the higher projected earnings in light of the \$4 billion that was sold. Commissioner-Designee Hoffbeck stated that he would need to review the executive summary, however he had reviewed

numbers that indicated potentially having \$75 million less in investment earnings; partially due to the transfer, and partially due to earnings not meeting forecasted levels prior to the transfer.

Co-Chair MacKinnon clarified for the committee that she had asked Commissioner-Designee Hoffbeck to quantify the loss of income resulting from moving the funds from the CBR. Her question related to why the state did not move the fixed assets to the CBR so they would be available for sale versus selling the assets outright. She asserted that she would re-check the spring forecast to verify her assertion about increased earnings.

[3:18:27 PM](#)

Co-Chair MacKinnon asked if Commissioner-Designee Hoffbeck believed in a social justice philosophy in relation to the state's investments, and wondered whether DOR looked at it in that way. Commissioner-Designee Hoffbeck commented that there were components within DOR investment policies that had that element, and thought the state had completely divested any investments that were associated with Iran. He avowed that he would invest based on the investment policies before him and leave the social conscience to others.

Co-Chair MacKinnon asked if Commissioner-Designee Hoffbeck could discuss commercialization of North Slope gas, and wondered when the committee would see the proceeds as part of the spring or fall revenue forecast. She wondered when, based on the current administration's proposal, there would be some reflection in the revenue resource book. Commissioner-Designee Hoffbeck replied that until there was certainty of a pipeline being constructed, revenues from any gas commercialization would not show up in revenue forecasts. He suggested that during the Final Investment Decision (FID) phase it would be possible to see revenues from gas commercialization.

Co-Chair MacKinnon asked how Commissioner-Designee Hoffbeck saw his role in participating with the AGDC board in bringing Alaska's gas to market, and wondered what his team was doing to support the [AKLNG] project. Commissioner-Designee Hoffbeck related that there were several DOR employees that had signed confidentiality agreements and had actively participated in fiscal negotiations. He shared

that he recently travelled to Houston, Texas to meet with producers and their teams for various components such as pipeline construction. He stated that he had participated in robust conversations and gained a great deal more information. He specified that ultimately it rested on himself and the commissioner of DNR to make recommendations to the governor on the gasline. He furthered that he considered that they were a ways away from having the information to make the recommendation. He reported that they had asked the attorney general to give more guidance on the confidentiality agreements. He continued that he and the commissioner of DNR would like to be more actively involved; however until the confidentiality agreements were finalized, there was a limited amount of information to deal with.

[3:21:50 PM](#)

Senator Hoffman discussed the Permanent Fund Earnings Reserve Account and commented that it had been controversial as to how the revenues would be utilized. He wondered how Commissioner-Designee Hoffbeck envisioned the funds being spent on both operations and capital expenditures. Commissioner-Designee Hoffbeck thought that the funds should be an integral part of any solution to the current revenue picture. He asserted that they funds should be part of a larger fiscal package, where there was a balance of expenditures and revenue options. He furthered that he did not support immediately spending the investment earnings as a solution; rather, it should be only a part of the solution.

Senator Hoffman followed up to ask if the permanent fund earnings should be spent on daily government operations versus building infrastructure such as investment in the gasline. Commissioner-Designee Hoffbeck stated that the funds could certainly be used for either purpose, and thought there were more options on the capital budget side, where the state could bond for some of the infrastructure improvements. He restated that the spending should be part of a greater fiscal package, rather than to just "kick our liabilities down the road." He surmised that if there was a way to capture an opportunity early on, using debt rather than spending operational money, it should be examined.

Vice-Chair Micciche discussed unpaid tax liability and audits for taxpayers; he asked Commissioner-Designee

Hoffbeck if he was aware of any substantial outstanding overdue taxes. Commissioner-Designee Hoffbeck stated that there was a memo being prepared for the legislature with regard to five recently issued oil and gas tax audits that equaled a total of \$258 million.

[3:24:45 PM](#)

Vice-Chair Micciche referred to a tax lawsuit involving the City of Valdez and the Fairbanks Borough, and wondered if there had been a final ruling and if it was part of the outstanding tax monies. Commissioner-Designee Hoffbeck clarified that he had referred to five oil and gas tax audits. He furthered that the case Vice-Chair Micciche referred to involved Valdez and the North Slope and while a settlement was still being attempted, it had been scheduled for litigation in the Superior Court of Alaska. He added that a part of the settlement may be tied to trying to settle the longstanding TAPS litigation. He elucidated that the cases were related due to the options that Valdez, and to some extent the North Slope, were tied to whether the monies flowed to the municipalities from the litigation or not. He reiterated that the state was attempting to resolve both cases without further litigation.

Vice-Chair Micciche asked if the Valdez settlement would make it uncomfortable for DOR to recoup funds from the litigation. Commissioner-Designee Hoffbeck commented that if the courts mandated a refund from litigation, DOR would enforce the ruling of the court.

Co-Chair MacKinnon asked if, as a trustee of the Alaska Permanent Fund Board, Commissioner-Designee Hoffbeck had given instructions to the permanent fund staff to examine converting more of the earnings reserve to cash, anticipating a need to draw on the CBR. Commissioner-Designee Hoffbeck responded in the negative, and stated that the reason DOR drew from the subaccount in the CBR was purely because it was statutorily driven. He clarified that there was no plan to draw on the investment earnings of the permanent fund, adding that it was part of the discussion. He described the CBR as "the balancing point" of the budget, and DOR was in "asset preservation mode" with the account so the monies would be there when needed.

[3:28:00 PM](#)

Co-Chair MacKinnon commented that her staff had reviewed the Department of Revenue Spring Forecast, and as she had earlier pointed out, it indeed showed higher investment earnings over the fall forecast. She asked Commissioner-Designee Hoffbeck to inform her in the case that it was an error. Commissioner-Designee Hoffbeck agreed to do so.

Co-Chair MacKinnon asked what Commissioner-Designee Hoffbeck saw as an advantage of moving towards using a POMV strategy, and wondered if it would protect Alaskan's dividends. Commissioner-Designee Hoffbeck explained that the North Slope Borough also had a permanent fund, and although much smaller, it was not dissimilar to the State of Alaska Permanent Fund. He continued that the North Slope fund was managed as a POMV, with a percent of the market value available for operations on an annual basis. He remarked that it worked well, and did not have the issues of realized gains, which required selling assets in order to generate a dividend. He described that POMV had two components: how to manage the permanent fund, and using the market value to fund the dividend. He noted that all of the investment earnings of the permanent fund (around \$6 billion) were available for appropriation. He furthered that if you re-deposited the earnings into the permanent fund, and then used the POMV for the allocation of the earnings, there would be a little over \$2.5 billion available. He supposed that POMV could protect the rate at which the investment earnings could be depleted, but for the long term a systematic withdrawal from the permanent fund would slow its growth. He went on to say that if POMV was used as a measure for the dividend, it may still be higher than what was yielded from realized gains in any given year.

Co-Chair MacKinnon commented that she thought the Permanent Fund Board had a standing resolution to be on a POMV basis, and thought it interesting to hear what Commissioner-Designee Hoffbeck believed to be advantages in terms of managing the asset and protection of a rate of return over time.

[3:31:16 PM](#)

Co-Chair MacKinnon commented that Commissioner-Designee Hoffbeck was in a position in which people needed to have confidence in his actions. She contemplated that he had moved \$4 billion in anticipation of a state statute, and

wondered if he had rebalanced the funds, or if it was off the table in cash. Commissioner-Designee Hoffbeck clarified that the funds were invested in treasuries and bonds, and rather than being in anticipation of statute, it was directly dictated by statutes. He pondered the question of moving the \$4 million if it were not for the statutory language, and concluded that he would probably have been more aggressive and left some of the monies in equities. He explained that the CBR had never had equities in it, but DOR was looking at putting some equities in the CBR so as to have the opportunity to capture some gains if the market continued to rise.

Co-Chair MacKinnon observed that the current administration was handling things differently from the past, to varied effect, and perhaps less aggressively in terms of a return on investment for Alaska. She mused on observing the future rate of returns of the invested funds. Commissioner-Designee Hoffbeck reflected that the market was currently high and volatile, and there was much concern that it would return to a "bear market." Consequently there was some logic to the sale, even if it weren't for the statutory language. He remarked that it had been an opportune time, in a low market environment, along with the aforementioned statutory language regarding use of the funds.

Co-Chair MacKinnon stated that over the past year the legislature had approved (in January of 2014) a move of \$3 billion; with what she believed to be a greater level of caution used at investing and making the fund transfers. She wondered if Commissioner-Designee Hoffbeck thought the state's income had "taken a dip" after he had moved \$4 billion from the CBR, and asked how much the treasury bonds were yielding. Commissioner-Designee Hoffbeck stated that he would have to verify the amount of yield, and reiterated that \$75 million was the potential decrease in investment earnings. He furthered that it depended upon what the market did before the end of the fiscal year, it had been relatively flat since the monies were originally transferred two weeks previously. He considered that there was more flexibility in making three tranches in investing into the retirement accounts. He felt that the statute was clear in that he did not have the authority to invest in the sub-account of the CBR.

[3:34:29 PM](#)

Co-Chair MacKinnon asked if Commissioner-Designee Hoffbeck could explain how he viewed his fiduciary responsibility to the State of Alaska. She remarked that it was his responsibility to make the best decisions for Alaska, regardless of what state statutes said. Commissioner-Designee Hoffbeck disagreed with the assertion of "regardless of state statute," and reflected that the state statutes put boundaries around what he could do. He contended that his responsibility was to balance risk and return in order to get the greatest possible return at the lowest possible risk, and he took that responsibility seriously.

Co-Chair MacKinnon judged that Commissioner-Designee Hoffbeck had moved \$4 billion dollars rather quickly, and wondered if he could assure the committee of whom he had discussed the move with. Commissioner-Designee Hoffbeck qualified that the move was contemplated with internal discussions, based on looking at statutory language as well as how the state was invested, and the group had felt it was out of compliance with the statutes.

Co-Chair MacKinnon asked him if he could relate whom (from inside the department) he had relied on for discussions. Commissioner-Designee Hoffbeck named Gary Bader, Chief Investment Officer, Treasury Division, DOR, and his staff. He specified that they had met with the deputy commissioner, the treasurer, Mr. Bader, and two of his staff in order to discuss the options and best way to get back into compliance.

Co-Chair MacKinnon asked if there was documentation of the meeting. Commissioner-Designee Hoffbeck reported that there were no minutes from the meeting, but there should be documentation of the decision and it was perhaps posted online.

Vice-Chair Micciche asked for the title and statutory reference to the aforementioned five-year rule for liquidation in the CBR. Commissioner-Designee Hoffbeck replied AS 37.10.430.

Vice-Chair Micciche asked if Commissioner-Designee Hoffbeck had the statutory language in front of him. Commissioner-Designee Hoffbeck stated that he did not.

Co-Chair MacKinnon asked him if he had any conflicts of interest in his ability to perform as the commissioner of DOR. Commissioner-Designee Hoffbeck didn't believe he had any conflict, but qualified that there was some lingering issues associated with the prior work he had done for the North Slope Borough in Valdez. He reported that the issues had been vetted by the Attorney General's Office, and that he was limiting his participation in certain litigation because of the positions he had taken with previous clients.

[3:37:54 PM](#)

Co-Chair MacKinnon mentioned legislation dealing with PILT and wondered why the bill had no reference to previous dialogue from meetings of the Municipal Advisory Gas Project Review Board. She suggested that the legislature had begun to receive feedback from the municipal advisory board that indicated their thoughts or comments from previous discussions may not have been reflected in the legislation. Commissioner-Designee Hoffbeck related that DOR had already had a teleconference with the oil and gas producers, and it planned to teleconference with the municipal advisory board to discuss the recommendations they had made. He discussed fiscal negotiations and the need for flexibility. He relayed that there were five components within the PILT bill, and revealed that the municipal advisory board had given their recommendation for the input on each of the five components. He remarked that finalizing property tax particulars was premature, and rather than locking in the property tax portion, DOR had locked in a structure that would limit discussions to the five measurable components.

[3:40:11 PM](#)

Co-Chair MacKinnon opined that Commissioner-Designee Hoffbeck had value to offer from a local perspective on how the local communities felt about the asset [oil and gas project] crossing or being placed on property that could be taxed. She suggested that the state perspective might be different, and that the legislature was trying to ascertain a specific price to pay in order to have terms to negotiate to benefit all of Alaska. Commissioner-Designee Hoffbeck pointed out that the largest recipient of the property tax of the pipeline [AKLNG project] was the State of Alaska. He asserted that DOR was protecting the state interest as well

as the municipalities' interest. He stated that there were three parts to the discussion: what was the idea of the "take" during operations, construction impact payments, and how much of the money flows through the municipalities versus how much flowed through the state. He added that DOR had one of the three discussions accomplished.

Vice-Chair Micciche clarified his previous question, regarding payment over the tax cap. He asked Commissioner-Designee Hoffbeck if the fact that he previously represented the North Slope Borough made it uncomfortable in the case that he had to execute an over-payment order. Commissioner-Designee Hoffbeck confirmed that litigation was one of the areas in which he had stepped back, and he would execute whatever the courts or the negotiated settlement dictated. He added that he had some strong opinions on the record, and that was his reason for stepping back.

Vice-Chair Micciche wondered how the commissioner would deal with potential conflicts or the perception of conflicts or awkwardness. Commissioner-Designee Hoffbeck relayed that the best way, much like legislators had done, would be to be open and transparent about his involvement in the past. Additionally, if there were any questions about the decision-making process, he would be open about what the decision-making process was. He concluded that he had, to the extent that was possible, backed away from those areas where the conflict would be most egregious.

[3:43:14 PM](#)

Co-Chair MacKinnon asked if the Power Cost Equalization (PCE) Fund was managed differently than the overall assets the state had. Commissioner-Designee Hoffbeck clarified that the biggest difference in the way the fund was managed was that the PCE had a directed rate of return at seven percent. He stated that the biggest problem in with the directed rate was in a low market, one might have to take excessive risks to achieve 7 percent.

Co-Chair MacKinnon thanked Commissioner-Designee Hoffbeck for sharing his perspectives. Commissioner-Designee Hoffbeck expressed his appreciation for Senator MacKinnon's input.

Co-Chair MacKinnon ADVANCED the name of Randall Hoffbeck, in accordance with AS 39.05.080, and recommended the appointment be forwarded to a joint session for consideration. There being NO OBJECTION, it was so ordered.

#

ADJOURNMENT

3:46:10 PM

The meeting was adjourned at 3:46 p.m.