

**ALASKA STATE LEGISLATURE  
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

January 14, 2019

10:02 a.m.

**MEMBERS PRESENT**

Senator Bert Stedman, Chair  
Senator Anna MacKinnon  
Senator Cathy Giessel  
Senator Click Bishop  
Senator Lyman Hoffman  
Senator Natasha von Imhof (alternate)

Representative Andy Josephson, Vice Chair  
Representative Paul Seaton (via teleconference)  
Representative Ivy Spohnholz  
Representative Jennifer Johnston  
Representative Dan Ortiz (alternate)

**MEMBERS ABSENT**

Representative Scott Kawasaki

**OTHER LEGISLATORS PRESENT**

Senator Shelley Hughes  
  
Representative Tammie Wilson  
Representative Gary Knopp  
Representative George Rauscher  
Representative Mark Neuman  
Representative Geran Tarr

**COMMITTEE CALENDAR**

APPROVAL OF THE AGENDA  
APPROVAL OF THE MINUTES  
AMENDMENT TO SPECIAL AUDIT REQUEST  
EXECUTIVE SESSION  
FINAL AUDITS RELEASE  
OTHER COMMITTEE BUSINESS

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

RANDY RUARO, Staff  
Senator Bert Stedman  
Legislative Budget and Audit Committee  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Reported on the Legislative Budget and Audit Committee transition report.

**ACTION NARRATIVE**

[10:02:23 AM](#)

**CHAIR BERT STEDMAN** called the Legislative Budget and Audit Committee meeting to order at 10:02 a.m. Representatives Josephson, Johnston, Spohnholz, Seaton (via teleconference), and Ortiz (alternate) and Senators Stedman, Hoffman, Giessel, Bishop, MacKinnon, and von Imhof (alternate) were present at the call to order.

**Approval of the Agenda**

[10:03:24 AM](#)

CHAIR STEDMAN announced that the first order of business would be approval of the agenda.

REPRESENTATIVE JOSEPHSON moved that the Legislative Budget and Audit Committee approve the agenda as presented. There being no objection, it was so ordered.

**Approval of the Minutes**

[10:03:47 AM](#)

CHAIR STEDMAN announced that the next order of business would be approval of the minutes.

REPRESENTATIVE JOSEPHSON made a motion to approve the minutes of the December 13, 2018 meeting. There being no objection, the minutes from the meeting of December 13, 2018 were approved.

**Amendment to Special Audit Request**

[10:04:19 AM](#)

CHAIR STEDMAN announced that the next order of business would be to rescind an action from the previous meeting and add definition to that motion to ensure there was not any misunderstanding to the technicalities. He explained that during its December 13, 2018 meeting the Legislative Budget and Audit Committee had approved a special audit request. At the end of that meeting there had been discussion for the adoption of an amendment which would use the FY 18 information as the baseline. However, this change "was not firmly adopted and voted on." He reported that the Legislative Auditor had advised that a formal vote to adopt the use of the FY 18 information as the baseline was necessary.

[10:05:31 AM](#)

REPRESENTATIVE JOSEPHSON moved that the Legislative Budget and Audit Committee rescind its action to adopt a special audit request on the Office of Children's Services (OCS) under HB 151, as amended, to reference use of FY 16 as its baseline.

[10:05:44 AM](#)

CHAIR STEDMAN objected for discussion. There being no discussion, the objection to adoption of the motion to rescind was removed.

[10:06:03 AM](#)

REPRESENTATIVE JOSEPHSON moved to adopt the special audit request as presented with an amendment to include FY 18 baseline data in the audit. There being no objection, it was so ordered.

### **Executive Session**

[10:06:35 AM](#)

CHAIR STEDMAN announced that the next order of business would be to move into executive session.

[10:06:47 AM](#)

REPRESENTATIVE JOSEPHSON made a motion to move to executive session under Uniform Rule 22(b)(1) for the purpose of discussing confidential audit reports for the Alaska Gasline Development Corporation and the Department of Commerce, Community & Economic Development, Big Game Commercial Services

Board, under AS 24.20.301. There being no objection, the committee went into executive session at 10:09 a.m.

[10:08:28 AM](#)

The committee took a brief at-ease.

Chair Stedman brought the committee back to order.

[10:09:46 AM](#)

The committee took an at-ease from 10:09 a.m. to 10:41 a.m.

[10:41:23 AM](#)

CHAIR STEDMAN brought the committee back to order. Representatives Josephson, Johnston, Spohnholz, Seaton (via teleconference), and Ortiz (alternate) and Senators Stedman, Hoffman, Giessel, Bishop, MacKinnon, and von Imhof (alternate) were present at the call back to order.

#### **Final Audits Release**

[10:42:30 AM](#)

REPRESENTATIVE JOSEPHSON made a motion for the final audits for the Alaska Gasline Development Corporation, Select Financial Issues and the Department of Commerce, Community & Economic Development, Big Game Commercial Services Board, to be released to the public for response. There being no objection, it was so ordered.

#### **Other Committee Business**

[10:42:55 AM](#)

CHAIR STEDMAN reported that Mr. Ruaro would present a transition packet for the incoming House Chair of the Legislative Budget and Audit Committee, explaining that this committee rotated its chair from Senate to House every two years. He reported that, as the committee represented the majority and minority membership in both the House and the Senate, a lot of its agenda was non-partisan work, with input from consultants, for the benefit of the entire Alaska State Legislature. He reported that, as recent Legislative Budget and Audit Committee work had been on a gasline, a set of consultants had been engaged to bring "some analytics to the gasline decisions that we're going

to be facing in the Legislature in the event that we have a large in-state export line built." He shared that, in order to preserve this accumulation of information, Mr. Ruaro would be compiling the information for transfer to the incoming chair. He noted that the complexity of the gasline issue was "substantial in any realm." He acknowledged that the transition document was not yet ready, as they were waiting to get some information from the consultants. He stated that this document would be available to all current and future committee members, as well as current legislators. He expressed his hope that the document would offer a better understanding for "the scope and realm of what we're dealing with." He noted that, although there had been some unreported complications, "at some point, we have to lay some of these issues on the table." He shared that, in December, it had been revealed that the "information flow was highly restricted out of the administration to this committee, which made it more difficult for us to move forward as fast as I would have liked to." He added that the significance of these discussions and the accumulation of information in the upcoming months was "of such a nature, I would recommend that the new House organization, whoever or whatever that structure is, consider having this information put forth in front of the [House Resources Standing Committee]. He noted that this information would be shared with the Senate Resources Standing Committee and the Senate Finance Committee.

10:48:02 AM

RANDY RUARO, Staff, Senator Bert Stedman, Legislative Budget and Audit Committee, Alaska State Legislature, reported that a transition report was in progress to describe and identify the issues related to the AGDC [Alaska Gasline Development Corporation] and AK LNG [Alaska liquified natural gas] projects. He noted that these topics span fiscal analysis, fiscal certainty, and legal issues, as well as royalty calculations and the possible stacking of deductible lease expenditures. He added that it would include the question whether field cost allowances applied to liquids that were produced. He expressed his surprise that the AGDC calculations had not considered these issues or were unable to share them. He explained that most of the fiscal impacts flowed from two areas. The first area, potential project cost overruns, had some structures which AGDC hoped to put in place to protect the state, as, at any moment, the parties responsible for those cost overruns could choose to "simply walk away from the project at which time the state would be the deep pockets that would be left." He explained that some experts had been retained to look at cost overrun issues and how

to mitigate the potential impact and risk to the State of Alaska. He reported that information on cost overruns for mega projects averaged as much as 80 percent, although it could be much less on this project. He added that the committee wanted all the risks identified and the strategies reviewed, in order to mitigate those risks. He stated that the general concept for this work was to identify and mitigate every identifiable risk, which could help the state "be on solid ground knowing what the returns would be, what the risks are going forward with the project." He reported that, in the last year, the Alaska State Legislature had denied a request from AGDC for an unlimited amount of receipt authority. He offered his belief that this had been denied because the legislature was not comfortable with the amount of information it had received from AGDC, possibly reflecting a need for more transparency and information sharing. He suggested that, although "that could be a little tricky with commercial terms," there were ways for mitigation by presenting ranges of terms. He added that, although AGDC had broad confidentiality powers under Alaska law, if there was intent for an equity offering to the public or other persons, it was necessary to make disclosures of a lot of fiscal and contract information under federal SEC (U.S. Securities and Exchange Commission) rules and laws. He shared one recommendation from the report, that AGDC publicly present all the information necessary for a formal equity offering for review by the public and the legislature. This would allow that suggestions for modifications to contracts or negotiations be returned to AGDC. He shared that AGDC "seemed to be unconcerned" or [not] "very worried about the fiscal impacts from potential cost overruns" or "fiscal impacts from deductible lease expenditures and field cost allowances that would be created by the upstream infrastructure that the oil companies would be building at Prudhoe and Point Thomson." He offered his belief that the cost estimate would be for billions of dollars of infrastructure and ongoing operating costs of hundreds of millions. He relayed that Senator Stedman's had directed the consultants to review these issues and develop a fiscal year by year net impact of the project to the [state] treasury. He emphasized that Senator Stedman wanted "to get to the bottom-line net by fiscal year" to allow any necessary mitigation for impacts to the treasury. He declared that the overall need was for the legislature and the public to understand the impacts and mitigate those impacts to the maximum extent, so the state and the public, along with the other parties on the project, could move forward with confidence. He acknowledged that, although some commercial terms did need to remain confidential, many commercial terms and

contracts needed to be disclosed under federal law. He pointed out that federal law preempted state law.

MR. RUARO added that the Department of Natural Resources and the Department of Revenue received appropriations in the past legislative session to perform their own due diligence and review of the work to achieve a uniform, agreed upon identification of issues and impacts. He noted that there would be continued meetings between the experts from all sides, including AGDC, to work toward agreement of the variables for the modeling and the impacts from this effort. He added that, with the recent change of administration, there had been an increase of data from AGDC. He opined that the only way the project could move forward was for identification of all the issues and impacts, with strategies to mitigate each and agreement for how to move forward.

[10:58:28 AM](#)

CHAIR STEDMAN added that the Legislative Budget and Audit Committee consultants had been working with the Department of Natural Resources and the Department of Revenue. He reported that, in December, a preview of the integrated analysis, showing the net impacts back to the state, had been presented on the summary page. He questioned how a \$40 billion project could be negotiated without an understanding for the net cash impact to the state. He opined that the Senate Finance Committee would "take some detailed interest in, on whatever project was sittin' on the table to be built." He declared that he "was not impressed with AGDC not doing it [the integration analysis]" even as it was in statute to review the net impact to the state. He referenced another issue being reviewed by the analysts, "the loss of oil due to the take-off of gas," adding, "I think there might be some discussion in the resources committee on that." He declared that the project would continue to move forward, and "hopefully, at the end of the day, we'll end up with a large export gasline."

[11:01:27 AM](#)

REPRESENTATIVE SEATON (via teleconference) directed attention to a presentation he had e-mailed to the committee members. He expressed his concern with slide 6 of this presentation, which showed consideration for two different projects using alternative financing. He explained that this financing alternative separated the Chinese portion, as the Chinese National Bank would offer low terms to only the Chinese national

oil company which would be responsible for paying that lender. He added that the other 25 percent of the project, the equity side which included the State of Alaska, would be financed separately. He offered his belief that the interest rate on the Chinese portion could be 1 or 2 percent which would make this available gas more economical; however, for the State of Alaska, the interest rate would be 8 or 9 percent. He concluded that this raised the possibility for two sections of this project, a Chinese section which was totally economic and the State of Alaska section which was not competitive due to the interest rate. He expressed his concern that there was not a plan for further explanation. He suggested that the Legislative Budget and Audit Committee ask its contractors to specifically review this investment proposal so the state would not be subject to subsidies in order to sell its portion of the gas.

[11:06:29 AM](#)

CHAIR STEDMAN declared that he was unclear for the financial package to be presented by the Chinese, stating that "it's a moving target." He pointed out that the consultants would need to review and understand "whatever package is put on the table and this mechanism of basically bifurcating the project of 75 percent of overseas and 25 percent on this side and running it... like two different projects."

CHAIR STEDMAN, in response to Senator Hoffman, said that the transition report would be distributed as soon as possible.

MR. RUARO said that distribution of the transition report by the end of January was a reasonable expectation, although Legal Services had advised for a possible delay in the authorizations to the contractors until a new Legislative Budget and Audit Committee Chair and project director were seated.

CHAIR STEDMAN said that he wanted the transition report distributed as soon as possible and that he would work with the incoming chair. He opined that the consultants would be available for discussions during the winter.

[11:09:36 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 11:09 a.m.