

HOUSE FINANCE COMMITTEE

May 3, 2017

1:36 p.m.

[1:36:21 PM](#)

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:36 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Les Gara, Vice-Chair  
Representative Jason Grenn  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Joey Crum, President, Alaska Truckers Association, President and CEO, Northern Industrial Training; Joe Schierhorn, President and Chief Operating Officer, Northrim Bank; Angie Newby, Homer Realty; Vince Beltrami, President, Alaska American Federation of Labor/ Congress of Industrial Organizations (AFL-CIO); Mike Navarre, Mayor, Kenai Peninsula Borough; Senator Shelley Hughes, Sponsor; Janey Hovenden, Director, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community and Economic Development; Buddy Whitt, Staff, Senator Shelley Hughes; Representative Bryce Edgmon; Representative Louise Stutes; Representative Adam Wool; Representative Chris Tuck; Representative Geran Tarr; Representative Zach Fansler; Representative Gabrielle LeDoux.

PRESENT VIA TELECONFERENCE

Dr. Thomas Felix, Director, Medical Research, Amgen Inc.

SUMMARY

SB 32            PRESCRIPTIONS FOR BIOLOGICAL PRODUCTS

SB 32 was HEARD and HELD in committee for further consideration.

PRESENTATIONS: THE ECONOMY AND FISCAL POLICY OVERVIEW  
ALASKA TRUCKERS ASSOCIATION  
NORTHRIM BANK AND ALASKA BANKERS ASSOCIATION  
ALASKA AMERICAN FEDERATION OF LABOR/ CONGRESS OF  
INDUSTRIAL ORGANIZATIONS (AFL-CIO)  
KENAI PENINSULA BOROUGH

Co-Chair Foster reviewed the meeting agenda.

^PRESENTATIONS: THE ECONOMY AND FISCAL POLICY OVERVIEW

[1:37:49 PM](#)

Co-Chair Seaton spoke about the intent to hear an outside perspective about what was currently taking place in the state's economy.

[1:39:01 PM](#)

JOEY CRUM, PRESIDENT, ALASKA TRUCKERS ASSOCIATION, PRESIDENT AND CEO, NORTHERN INDUSTRIAL TRAINING, read from prepared remarks:

Good afternoon Co-Chairs Foster and Seaton and members of the Committee. I am Joey Crum, President and CEO of Northern Industrial Training and this year I am the President of the Alaska Trucking Association. Thank you for being invited to testify today.

Founded in 1958, The Alaska Trucking Association or ATA represents roughly 200-member companies spanning the entire state. Our members include not only trucking companies, but container shippers, the railroad, fuel barges and much more. From Ketchikan to Barrow if you got it, one of our member companies brought it.

In terms of employment, in 2015, the trucking industry in Alaska provided 13, 700 jobs or 1 out of 19 in the state. Total trucking industry wages paid in Alaska in 2015 exceeded \$800 million, with an average annual trucking industry salary of \$56,283.

As far as a Small Business Emphasis, as of April 2015, there were 2,710 trucking companies located in Alaska, most of them small, locally owned businesses. These companies are served by a wide range of supporting businesses both large and small.

We transport essential products; trucks transported 60 percent of total manufactured tonnage in the state in 2012 or 17,647 tons per day. 94.3 percent of Alaska communities depend exclusively on trucks to move their goods.

As an Industry In 2014, the trucking industry in Alaska paid approximately \$69 million in federal and state roadway taxes. The industry paid 51 percent of all taxes owed by Alaska motorists, despite trucks representing only 11 percent of vehicle miles traveled in the state.

Individual Companies pay taxes, as of January 2016, a typical five-axle tractor-semitrailer combination paid \$1,783 in state highway user fees and taxes in addition to \$8,906 in federal user fees and taxes. These taxes were over and above the typical taxes paid by businesses in Alaska.

Our member companies literally touch all of Alaska giving us a unique perspective and a firsthand account as to the effects of a down economy, which is very clearly what we are experiencing now.

Business in 2014 and part of 2015 was good, particularly on the North Slope. But then the slow down began and in 2016 ATA member companies were down nearly 40 percent over 2014.

The following chart will demonstrate the numbers received from AK DOT Weigh in Motion device (Scales) in Fox just outside of Fairbanks. This data is for large Commercial Motor Vehicle i.e. trucks not pick-

ups or vans and reflects the number of loads headed north on the Dalton highway toward Prudhoe Bay.

As you can see, the numbers are kind of staggering when you have them represented in front of you. Where the year-over-year difference of 9,984 loads fewer in 2016 than in 2015.

Co-Chair Foster noted that some committee members did not have the document Mr. Crum was referencing. He relayed that the document was being copied for the committee at present.

1:42:58 PM

AT EASE

1:47:29 PM

RECONVENED

Mr. Crum referenced a document he had provided to the committee dated May 1, 2017 (copy on file). He pointed to a table on page 2 and relayed that the data had been collected by the scale house in Fox outside of Fairbanks going north on the Dalton Highway. He clarified that he had been referencing the year-over-year comparison between 2015 and 2016 that showed 9,984 fewer loads went north on the Dalton Highway in 2016 compared to 2015. The 2017 data had been received 1.5 days earlier and indicated that the number of loads was down 19 percent in 2017 compared to first quarter 2016. He read from page 2 the document:

The data clearly illustrates that we experienced a precipitous drop in the number of loads and therefore work occurring on the North Slope. A decline this dramatic is felt by all of our member companies across the entire state.

Mr. Crum turned to page 3 that referenced a survey of 10 Alaska Trucking Association motor carriers, which began to show the depth and impact of the downturn in Alaska's economy. He explained of the 10 members surveyed, the lowest drop between 2014 and 2016 was 15 percent and the highest drop was 60 percent. The fewest number of employees laid off during the timeframe was 16 and the highest was 800. The right column included quotes from the companies about their outlook on the Alaskan economy and the future of their businesses. He read from the document:

As you can see, our outlook is not good. I'd like to point out that too often when people hear of layoffs as a result of reduced oil activity they associate those layoffs with ConocoPhillips, BP or ExxonMobil and somehow dismiss them or think of them as a localized problem.

The fact is that our current situation affects many more than just Fortune 500 companies. Every one of us that get up in the morning with the desire to go to work are affected, and work is getting harder and harder to come by. The trucking industry directly employs or supports not only truck drivers, but pilot car drivers, engineers, welders, mechanics, fuel delivery services, aviation, marine, truck dealers, logistical support and the list goes on and on. Those are the people we have been forced to lay off.

The motor carriers don't see much happening soon. Our hope for the future relies on increased activity in the oil patch and an improved economy that will result from increased throughput and jobs. The oil patch is very important to our industry. It is critical that the budget issues be resolved without crushing our natural resource extraction industries or the people and companies that it employs.

The Senate Resources Committee made changes to HB 111, the oil tax bill. The version passed by the House significantly raised taxes on the industry when it is trying to prevent further layoffs and bring new oil reserves into production during a time of low oil prices. Our goal should be to put more oil in the pipeline, which the existing tax system does, because that means more revenues, jobs and economic opportunities for our state and its residents. The Senate version of HB 111 eliminates cash credits in a way that retains incentives for new production. It does not make many significant tax changes to the SB 21 basic tax structure as did both House versions.

The ATA supports the Senate version of HB 111 dealing with oil taxes. We believe that it achieves the policy goal set by Governor Walker and his administration to eliminate refundable cash credits, without compromising Alaska's competitiveness to attract future investment. The Senate version of HB 111, through

modifications of the oil tax credits program, significantly limits future financial exposure for the State of Alaska while retaining important elements of the current oil tax framework that enhanced Alaska's competitive position in attracting future investment to grow oil production, increase throughput in TAPS, and strengthen the economy. ATA strongly supports the Senate Version of HB 111.

[1:52:43 PM](#)

Mr. Crum concluded his prepared remarks:

In closing, ATA like most Alaskans have felt the devastating effects of a decline in the oil industry. It has impacted every decision we make from the kind of coffee we use to the number and experience level of employs we hire. We believe that passing the Senate version of HB 111, will significantly improve our economic outlook. As business managers and owners, we know the importance of a sound and stable economic/fiscal policy. We operate our companies with long term visions and plan according to the policy that the legislature sets. Our hundreds of members and thousands of employees and their families want an opportunity to work, and to have a purpose. We urge you to give our companies the stability they need to function by passing the Senate version of HB 111. Thank you for your attention.

[1:53:43 PM](#)

Co-Chair Foster recognized Representatives Bryce Edgmon and Louise Stutes in the audience.

Representative Thompson asked about the trucking association's stance on the motor fuel tax.

Mr. Crum replied that as part of ATA's 2017 legislative priorities, it had been willing to support an increase in the motor fuel tax if it was a part of a comprehensive fiscal plan and as long as the money would be considered a user fee that would go towards highway maintenance.

Vice-Chair Gara asked if ATA had a position about whether there should be a stable fiscal plan outside of oil. He

cited a broad-based tax or some use of Permanent Fund earnings as examples.

Mr. Crum answered with the organization's priorities. First, the ATA believed action was critical in the current year. He spoke to the importance of implementing a plan putting steps in place to get to a solution. The organization wanted to see a series of annual reductions in state spending. Once the reductions had been made, the ATA wanted to see the development of a balanced, durable, long-term fiscal plan for use of the Permanent Fund earnings and taxes if required. The organization did not want the legislature to destroy the state's resource industries by uncompetitive taxes and regulations.

Vice-Chair Gara asked if ATA benefitted from construction outside of the oil patch. Alternatively, he asked if the oil patch was the big driver for jobs in the trucking industry.

[1:56:23 PM](#)

Mr. Crum answered that the trucking industry worked wherever work occurred in the state. The industry benefitted from construction, but oil was the largest driver for member companies.

Vice-Chair Gara remarked that with the downturn in oil prices and the growing budget deficit, the state's construction budget had gone from an average of \$600 million per year to less than \$100 million in the last couple of years. He asked if raising revenue to have a construction budget mattered to members.

Mr. Crum answered in the affirmative. He elaborated that the ATA had long supported matching funds for federal dollars to achieve the maximum benefit for the national highway system. The organization believed raising revenue needed to be part of a fiscal plan that included cuts.

Vice-Chair Gara asked Mr. Crum to consider the economy outside the North Slope. He spoke to the difference in the House and Senate versions of HB 111. The House version allowed tax credits that accumulate to about \$600 million over the next 10 years. Whereas, the Senate version allowed oil tax credits with interest that grew to \$1.7 billion over the next 10 years. He noted the Senate's version would

have an impact on what the state could invest in other sectors such as construction. He wondered if ATA had looked at the provisions to determine which would work better.

Mr. Crum responded that the organization believed the priorities should be increasing investment and jobs and providing people to work and provide for themselves. The organization supported the Senate version of HB 111.

Vice-Chair Gara asked if he had looked at the credit portions closely. He reiterated his previous question about the cost differences between the House and Senate versions of HB 111.

Mr. Crum answered that the association had compared the bill versions when it made the decision to support the Senate version.

[1:59:52 PM](#)

Vice-Chair Gara asked for verification that they had looked at the tax credit portions. Mr. Crum answered that the entire bill had been considered.

Vice-Chair Gara stated that the House version included a profits-based tax, so companies would only pay the state when profitable. The Senate version reduced the revenue the state received below what it received under current law. He asked for verification the ATA was amenable to the provision.

Mr. Crum replied that the association believed the Senate version gave the best opportunity to increase investment and jobs.

Representative Grenn referred to page 3 of the document provided by Mr. Crum that listed the top 10 motor carriers that lost jobs - the total exceeded 1,000. He spoke to the North Slope and job loss. He asked if the momentum continued, how easy it would be for the industry to replace the lost jobs. He wondered if the jobs would be filled by Alaskans quickly.

Mr. Crum responded that the ATA had received the invitation to testify to the committee late in the previous week. He clarified that the list did not include the 10 top members, but the 10 members who had responded to the survey first.

He acknowledged that it would be difficult to replace skilled workers if they began leaving the state; however, the ATA was seeing an increase in activity for out of state carriers to hire Alaskans. Some of the companies were rotating the drivers to the Lower 48 for work and back home for their "R&R" time. He stated that on a limited basis, if someone had an opportunity to work and live at home, those would be easy to replace. He emphasized that Alaska had the resources in-state to scale up the workforce quickly.

2:02:39 PM

Representative Grenn asked if there were training opportunities for the workers. Mr. Crum answered that as the president and CEO of Northern Industrial Training he could say unequivocally "yes."

Representative Wilson asked if the association would be in favor of taking money from the North Slope to place into other jobs.

Mr. Crum answered that the association would have an issue with taking money from just one industry.

Representative Wilson asked about Mr. Crum's perspective on the economy from his perspective as the head of the Northern Industrial Training organization.

Mr. Crum answered that the training school was run differently in some ways - it did not offer a tremendous number of training unless there were available jobs for those skills. As a result, enrollment had decreased in the past couple of years. The school believed that giving false hope by training people for a job that no longer existed was very destructive. The types of currently available jobs seemed to deal more with attrition - Alaska had an aging workforce, which did benefit new individuals getting into an industry because regardless of the economy, people would retire.

2:05:13 PM

Representative Wilson summarized her understanding of Mr. Crum's testimony. She referred to individuals who had lost trucking jobs due to the downturn on the North Slope. She referenced Mr. Crum's testimony about scaling up the workforce quickly and asked for verification that the

individuals most likely would be out of work until the jobs grew in the industry.

Mr. Crum answered in the affirmative. He elaborated that the individuals would either be out of work or would have to take an opportunity. He specified that his agency had placed 47 drivers with an out-of-state company that was rotating them to the Lower 48 to drive and home for their R&R.

Representative Wilson asked about other training schools the organization competed with that had substantial state funding. She asked whether the competitors only trained people for existing jobs.

Mr. Crum replied there were many trainings offered in fields that did not have jobs available.

Co-Chair Seaton referred to page 3 of the document provided by Mr. Crum where several trucking companies stated they expected further declines and needed projects. He furthered that Mr. Crum had testified that he believed the state should retract the economy with further cuts. He referenced the proposed \$185 million in cuts as an example. He was trying to reconcile how the ATA supported additional cuts and contraction in the economy, but also supported a larger capital budget to provide new projects.

Mr. Crum responded that one of the ATA's priorities was to look at areas where services could be offered at a lower cost. One of the opportunities was privatization. He organization was not to point the state into a recession, but to create the same amount of services for a lower expense, which ATA believed was possible.

Co-Chair Seaton asked Mr. Crum to send in specifics on how the economics would work. He did not believe taking \$185 million out of the economy would not result in new projects going forward. He opined that it would result in a longer recession. He was happy to look at a proposal for how to expand the economy instead of doing a larger capital budget as proposed by the House.

[2:09:00 PM](#)

Mr. Crum replied in the affirmative. The organization believed quality services could be provided through the private sector.

Representative Guttenberg recognized the problem with never ending major maintenance on the Dalton Highway. He wondered if the organization had discussed the major maintenance problems on Alaska's roads.

Mr. Crum answered that the organization had discussed the issue related to the Dalton Highway at length. He noted that an executive director referred to the highway as "the road to the bank." Maintenance along the highway was one of the organization's legislative priorities.

Vice-Chair Gara referred to Mr. Crum's testimony that the organization wanted to see more cuts before there was a fiscal plan. He asked for detail. He relayed that the legislature had been trying to find cuts and had cut \$3.4 billion from the budget since 2013. He continued that the House and the governor had found roughly \$80 million in cuts. The Senate was proposing an additional \$70 million cut to education and \$21 million to the University. He asked if those were the kind of cuts the organization was looking for. He asked if the organization had a preference on cuts.

Mr. Crum responded that cuts the ATA was asking for were areas where cheaper and potentially private sector solutions were available to provide the services. The fiscal cuts were part of the overall fiscal plan.

Representative Wilson highlighted that there had been other cuts proposed by the House Minority that had not related to the University or education.

[2:12:01 PM](#)

JOE SCHIERHORN, PRESIDENT AND CHIEF OPERATING OFFICER, NORTHRIM BANK, thanked committee members for the opportunity to speak with them about the economy and important issues facing the state. He shared that the past and present bank chairman had testified to various legislative committees in recent years about a long-term fiscal plan for the state. The former chairman, Marc Langland, had devoted the better part of his 50 years in banking in Alaska to the subject at hand. The current

chairman Joe Beedle had also devoted a significant amount of time to the topic. He personally had spoken to numerous forums - the bank had most recently provided economic summit meetings in Fairbanks, Anchorage, and Juneau; the summit included discussion on the economy and the need for a long-term fiscal plan.

Mr. Schierhorn explained that the topic was important to the bank given it was proud to be 100 percent Alaskan. He shared that he had grown up in Alaska and had worked for the bank for the past 26 years. He relayed that the bank's success was linked to the health of the state's economy. The bank was a publicly traded institution, SEC registered on the Nasdaq. The bank spent a significant amount of time speaking to its investors - approximately 65 percent of the bank was owned by institutional investors (i.e. mutual and other investment funds) - and discussed the economy at length. The investors had expressed concern about the long-term viability of the Alaska economy. The issue impacted customers in a significant way - it was a topic of discussion almost daily with everyone he met with. He noted that various customers were impacted in various ways.

Mr. Schierhorn communicated that the bank had consistently advocated for a balanced approach to the issue. The bank supported a fiscal plan reliant on continued efforts by the legislature to reduce the cost of government, use of a portion of the Permanent Fund earnings, and broad-based taxes. The bank believed all three areas needed to be addressed in the long-term plan for the state to have a secure future for its customers. He continued that recently economic activity was down. The primary indicator of the bank's volume was loans. He detailed that loans were currently down for the first time in recent memory; loans had been down slightly the previous year and were down again in the first quarter. The bank numbers were public and were published quarterly. Loans were one indicator of the status of economic activity in Alaska. He detailed there was less building taking place on a commercial basis - more projects had been completed and not near as many had been started. The bank's structure included 14 branches across the state including Fairbanks, Anchorage, Mat-Su, Juneau, Ketchikan, and Sitka. Through its wholly owned subsidiary, Residential Mortgage, it had another 14 offices throughout the state. He relayed that loan volume at its mortgage subsidiary was down substantially over the

previous year. The bank covered a broad spectrum of the economy.

[2:17:42 PM](#)

Mr. Schierhorn continued to address the committee. He specified that customers were impacted in different ways due to the overall decrease in the economy. Customers who were more dependent on the North Slope oil industry, had seen revenue decreases of 30-plus percent over the last year. Customers in the medical profession and tourism industry had not seen comparable decreases - in some cases their revenues were up slightly over the previous year. The employment numbers were up for the healthcare industry, and the tourism industry remained strong. The construction industry was down significantly. He shared that residential activity varied from market to market, but year over year prices were fairly consistent. Residential construction activity had decreased over the last several years. The bank remained cautiously optimistic about the state's long-term prospects given recent discoveries on the North Slope and the prospect of future development. However, the overarching concern from the business community was the viability of its economy, the possibility of having to continually deal with deficits at a state level, and failing to address the long-term needs of the state in the process.

Mr. Schierhorn emphasized the importance of a long-term fiscal plan that addressed the state's issues, paid for its current obligations, and kept its natural resources industry (oil in particular) viable and competitive on an international basis. He continued that if it was not done, the oil industry would not have incentive to make investments that were critical to move the economy forward.

[2:20:41 PM](#)

Representative Wilson referred to Mr. Schierhorn's comments about the positive nature of discoveries on the North Slope. She asked how the House's version of HB 111 could impact the discoveries and projects going forward into production.

Mr. Schierhorn answered that he was not well versed in the specifics of the bill. He believed it was critical to have policies in place to encourage future development. He

opined that without the policies, the economy's critical driver would go away. There was a prospect of very large discoveries that could produce additional employment and revenues to the state in the form of royalty and production taxes. He supported consistency in the approach to the industry. He wondered how the oil industry could make long-term investment decisions if the state continued to change its tax policies.

Co-Chair Seaton discussed that there were a couple of different models, one model was to maintain structural deficits going forward (about \$500 million per year would be removed from savings and capital budgets would be small - enough to maintain federal matching funds) or instituting a broad-based tax that would allow for larger capital budgets and not pulling money out of the economy. He asked whether one of the models fit under the banking industry's ideology.

Mr. Schierhorn returned to his statement about the necessity for a long-term fiscal plan that addressed the issue facing the state. The bank felt that the plan needed to contain three components: continual efforts to reduce the cost of government, the use of a portion of the Permanent Fund earnings, and broad-based taxes. He believed a solution was needed to have cash flow to pay for obligations and to prevent a deficit going forward. He continued it was incumbent on "us" to continue to find efficiencies in government and to decrease the overall cost. He referred to the previous testimony from the Alaska Trucking Association. He continued that "you're talking about" taking money out of the economy. He suggested there may be ways to provide services to government that saved government money and transferred money from a government worker to a non-government worker instead of taking money out of the economy. He underscored the necessity of developing a plan to ensure obligations were fully paid going forward. He noted that the state did not have substantial savings any longer. He remarked that the state was getting dangerously close to the point where it would not have much maneuverable room because it was about out of savings. He reiterated the support of the use of a portion of the Permanent Fund earnings.

[2:25:53 PM](#)

Co-Chair Seaton discussed that a cut of \$185 million would mean removing money from the economy and not investing it. He continued that if the money was spent on supplying the services the government spend would not be reduced. He stated that if the money was cut but money was used from a different source, it would not be a cut. He asked for clarification.

Mr. Schierhorn replied that they were arguing at the margin in terms of cost savings. He continued that the state was trying to arrive at a sustainable level of spending given its resources. He commended the legislature for trying to do that. The bank believed the efforts to increase government efficiency continued to need attention. The bank also believed additional sources of revenue were necessary to cover government expenses, primarily through Permanent Fund earnings, a broad-based tax, and continued efforts to cut the cost of government where possible. He did not recommend a specific figure in terms of the amount to cut.

Co-Chair Foster recognized Representative Adam Wool in the audience.

[2:28:23 PM](#)

Representative Grenn referred to residential loans and construction that Mr. Schierhorn had testified had remained stable compared to other construction loans. He asked about the takeaway.

Mr. Schierhorn answered that the housing prices were relatively stable across the various markets. The volume of mortgage originations was down substantially in its subsidiary Residential Mortgage and through overall mortgage originations in the state. The third component was the financing for residential construction itself. He relayed that the bank's builders were down a bit in their residential construction building activity year-over-year.

[2:30:26 PM](#)

Representative Guttenberg addressed new home construction and originations and the state running at a deficit and running with a stable economy. He stated that an entity providing loans for heavy equipment or construction operations gave a longer perspective on where the industry thought it was going. He asked how a continued structural

state deficit would impact a stable economy at present and into the future.

Mr. Schierhorn answered that the bank was seeing significantly fewer long-term projects. As larger commercial real estate construction projects had been completed, there had been much less replacement activity. General building activity it was down substantially in major markets. Projects, by industries requiring long-term investment for equipment (e.g. road construction businesses and others) reliant on state and federal funds, were down in general. There would be an increase in activity related to military construction of F35s in the Fairbanks area. He continued that projects in the greater Anchorage area had been affected. He addressed a scenario where state funding financed obligations completely and savings were not used. He spoke to the need for sufficient funds for government operating costs and an adequate capital budget. Industries relying on capital funding from state government were down significantly and had been impacted.

[2:34:08 PM](#)

Representative Guttenberg had met with CEOs who were concerned about the state's economy. He shared that the individuals had expressed that there was currently hesitancy towards investing in the state's economy. He wondered if the banking and business communities that there was a sense waiting for the state to "get its act together."

Mr. Schierhorn believed it was a constant topic of conversation and it was witnessed in the actions of the business community. Businesses were hesitant to make long-term commitments when the frontline news coming out of Juneau was consistently negative. It was impinging the development plans of numerous businesses going forward; it was a source of great concern.

[2:35:51 PM](#)

Vice-Chair Gara relayed that the state's average capital construction budget over the past ten years had been about \$600 million. The past few years had been a "bare bones" capital budget, which only included matching funds for federal money. He wondered if a full revenue plan that

would allow for larger capital budgets would have a positive impact on an economy fighting recession.

Mr. Schierhorn answered that the bank had written on the subject most recently in an Alaska Business Monthly article. The bank believed that enacting a long-term fiscal plan with all three components (he had previously listed) could have some negative short-term effects, but positive long-term effects. He elaborated that negative short-term effects would include people adjusting to less money in some form (e.g. from a decreased dividend or a tax increase). However, in the long-term, providing a sense that the state was addressing its needs and balancing its own budget, would give confidence to the business community and foster more investment.

Vice-Chair Gara stated that the dividend had been about \$1,000 the previous fall and the Senate's plan was for a \$1,000 dividend in the coming fall. A plan by the House could bring the dividend up to \$1,250, which would add about \$170 million into the economy. He asked if raising the dividend to \$1,250 would have a positive impact on the economy.

Mr. Schierhorn answered that if the issue was considered in isolation it would have a positive impact on the economy; however, he believed it was necessary to look at everything together. He questioned whether increasing the dividend meant taking away from someone else or another industry to balance the budget. Ultimately the issue rested upon the ability to have a long-term, sustainable, and balanced [fiscal] plan. He reiterated that an increased dividend would be positive if it did not remove money from another sector. He concluded that a balanced approach was needed.

[2:39:25 PM](#)

Vice-Chair Gara stated that some of the individuals opposed to the fiscal plan counted Permanent Fund earnings as savings and viewed using the reserve as a viable option to solve the state's fiscal problems. He was concerned that spending down the earnings reserve would jeopardize the dividend and the money that could be spun off for a payout. He asked if the bank had concern about merely spending the reserve versus coming up with a payout formula.

Mr. Schierhorn responded that the bank had been consistent with its message about the importance of addressing the issue at present. He shared that a delay put the state in further danger by decreasing the cushion. He addressed the legislature's discussion about using a portion of the Permanent Fund earnings as a percent of market value (POMV). He stated the markets would go up and down going forward. He stated that it was dangerous for Alaska if savings were used and the state's ability to cushion the effects of down markets was eliminated.

Vice-Chair Gara discussed that some individuals proposed significant cuts to education and continued cuts into the future. He had heard from friends, neighbors, and constituents that they would close their businesses and leave the state if there was no long-term commitment to public schools. He wondered if the bank believed continued cuts to school funding may have a negative impact on businesses.

[2:41:44 PM](#)

Mr. Schierhorn replied that fundamentally a viable, vibrant, and responsive education system was critical to the state's long-term future. He shared that he had three sons in the school system and he had personally benefitted from a good education in the Fairbanks School District. He had not had any conversations with businesses that were considering leaving because of cuts to education. He believed in the importance of education. The bank had strong partnerships with K-12 schools and the University system; the bank had benefitted as an institution from University system graduates. He furthered that the bank intended to maintain and support its long-term relationship with the University.

Representative Pruitt asked how many members were on the bank's board of directors. Mr. Schierhorn answered that there were twelve.

Representative Pruitt asked if the members always agreed. Mr. Schierhorn responded that the bank prided itself on having a diverse board with varying backgrounds, skills, and opinions. The bank encouraged board members and employees to bring in their own viewpoints. The bank felt that through a concerted effort and open and honest discourse the best solution was achieved on a long-term basis. Once a decision was made, the bank moved forward as a unified organization.

[2:44:57 PM](#)

Representative Pruitt surmised it was appropriate to say that all twelve members did not get 100 percent of what they wanted on every issue.

Mr. Schierhorn answered that like any organization there was compromise involved.

Representative Pruitt remarked on the diverse group of legislators. He believed that some legislators were confident that one direction going forward was the only viable option. He asked if Mr. Schierhorn believed legislators should come to a compromise where members got 80 percent of what they wanted versus waiting until next year with a hope of getting 100 percent.

Mr. Schierhorn replied that taking action at present was critical to address the long-term fiscal plan for the state; it involved all three components he had spoken to. The bank was encouraged that the legislature had made significant progress on all three fronts. The bank wanted the legislature to get 100 percent of the way there in the current year. He furthered that if 100 percent was not accomplished, the bank would be supportive if the majority of a balanced fiscal plan was achieved. The bank wanted a full fiscal plan and it believed the legislature had the ability to accomplish the goal; it believed the state and business community would be best served by a comprehensive, complete, balanced solution going forward.

Representative Pruitt asked if Mr. Schierhorn feared 70 to 80 percent of a solution versus zero.

Mr. Schierhorn answered it was critical to avoid using more of the state's savings. The legislature's ability as a body to enact a solution that achieved 75 to 80 percent of the goal would help avoid using the state's remaining savings. He believed it would be positive. However, the bank supported a comprehensive, all inclusive plan. He continued that 75 or 80 percent would be significant progress, but ultimately the industry wanted 100 percent.

[2:48:36 PM](#)

Representative Pruitt thought there was a significant amount of agreement with both sides [in the legislature]. His biggest concern was that no fiscal plan would be achieved because of the "add-ons" that some legislators were concerned about.

[2:49:26 PM](#)

ANGIE NEWBY, HOMER REALTY, shared her intent to provide detail about the current real estate market. She was happy to follow Mr. Shierhorn's testimony because she could speak to some of the cautious optimism he had expressed for the long-term. She reported that the Kenai Peninsula was experiencing a vibrant and robust real estate market, which was surprising in some ways given the overall state economy. The region was benefitting from low interest rates (and the concern of buyers that the low rates may go away) and the return of the Lower 48 investor due to financial and economic recovery in the Lower 48. an optimistic outlook in the real estate market presently. She relayed that the Kenai Peninsula was a bit of an anomaly and had always been independent of the Fairbanks and Anchorage markets. She reported very limited low inventory. She thought a portion of the trend could be attributed to people purchasing second homes in the region. Additionally, there had been an increase in residential construction after a hiatus of about seven or eight years; the increase was a direct result of declining inventory. She continued that there had been sellers who had lost their job on the North Slope or in other oil related industries, but instead of facing foreclosure, the homes had sold by buyers ready to absorb the inventory. She relayed that foreclosures were minimal.

Ms. Newby continued that at the upper end of the market there were more sophisticated buyers, particularly Alaskan buyers, who were concerned about the overall state economy. The peninsula had seen numerous professional relocations due to the South Peninsula and Central Peninsula Hospitals aggressively expanding and recruiting new positions in health-related industries. A strong real estate market provides for a strong property tax base, which acted as the base for local government spending. The real estate industry was only as strong as the overall vibrancy of the state. She encouraged the development of a long-term fiscal plan to maintain the vitality. Her local and broader-based clients saw that buyers and sellers understood something

needed to happen on the revenue side of the state budget. Numerous people had expressed to her that they were prepared to take a larger role in supporting government such as via an income tax. Individuals she had spoken with were open to an income tax because it was one way to capture the out-of-state residents who work in all segments of Alaska's economy. She cited fishermen coming in from the Lower 48 to work as an example. Out-of-state workers took all their money home; Alaska was one of the few states without an income tax.

Ms. Newby relayed that the peninsula had good success with local sales tax. She suggested reconsidering a statewide sales tax that could be tailored to individual purchasers of larger goods (e.g. items exceeding \$1,000 or \$2,500). She explained that it would tap into the large trading center in Anchorage where many people went for larger purchases. That particular sales tax revenue had left the peninsula and was not impacting the state either. She thanked the committee for its time and hoped her report had been good news.

[2:55:32 PM](#)

Representative Wilson mentioned hearing about layoffs in the private sector prior to layoffs taking place in the government sector. She wondered if some of the real estate activity taking place in the peninsula was due to a private sector rebound that could be taking place earlier because they had seen the downturn sooner.

Ms. Newby answered that she had been in the private sector business in Alaska since 1983. She recalled the state budget being cut down to nothing in the late 1980s. She believed there had been an opportunity for businesses in the private sector to retool themselves and to think more conservatively. She stated that the region was fortunate because it benefitted from fisheries, tourism, and government [jobs]. There was concern in the community about drastic state cutbacks especially in education. She elaborated that the University's Kachemak Bay campus was important to the community. The community was also concerned about a lack of funding for state parks that could result in a loss of ecotourism.

[2:57:03 PM](#)

Representative Guttenberg appreciated the unique set of factors Ms. Newby brought forward. He listed second homes, outside recovery money, the healthcare industry, and other items mentioned by Ms. Newby as contributing to the real estate market.

Ms. Newby appreciated the hard work of the legislature.

[2:58:07 PM](#)

VINCE BELTRAMI, PRESIDENT, ALASKA AMERICAN FEDERATION OF LABOR/ CONGRESS OF INDUSTRIAL ORGANIZATIONS (AFL-CIO), read from prepared remarks:

The AFL-CIO is the state's largest labor organization, representing somewhere in the neighborhood of 52,000 members currently. Just a year and a half ago that number was a little north of 55,000. So, in that same timeframe the state has lost about 9,000 jobs - about one-third of those came out of our ranks - fairly evenly split between public sector and private sector workers in nearly every field imaginable around the state. We're currently suffering through the highest unemployment rate in the country and the highest that we've had in at least two full decades in the state. As you know all too well, we have an approximately \$3 billion budget deficit. The AFL-CIO has been involved in an effort over the past year and a half called the Alaska's Future Coalition. I'm not here representing the coalition; however, I'd like to read the mission statement of that group which includes Alaska's largest businesses, Native corporations, unions, and former elected officials from both parties:

The mission of Alaska's future is to support the development of a stable and sustainable fiscal plan that will allow the Alaska economy to grow and thrive. Use of Permanent Fund earnings starting this year is the cornerstone of a fiscal plan that will significantly reduce the deficit, support essential public services, and maintain a sustainable dividend and a healthy Permanent Fund. This plan must also include specific policies allowing for responsible budget cuts and new revenue generation, and lead to a fully balanced budget. A resolution of Alaska's fiscal

uncertainty will lead to new jobs, increased investment, and a growing economy.

While I'm not speaking on behalf of that group, this mission statement embodies what the AFL-CIO supports. I commend the House of Representatives in debating and passing bills this session that meet all of those criteria. Of course, one important point of contention is if enough has been cut, and where anywhere in the neighborhood of having a right-sized budget. Several legislators have said they have trouble rationalizing new revenues when they don't think enough has been cut. I read in Bradner's Legislative Digest a couple of days ago, where Brian Fetcher, OMB policy analyst attempted to grapple with the size of Alaska's government. He came up with figures that considered state-only spending and landed on a number that stated we're approximately 7 percent higher than the U.S. average. His conclusion after considering inflation, population growth, and the special circumstances, the size and cost of Alaska's state government is not disproportionate to other states, nor has it changed significantly since before oil began to flow.

Some of you may recall that I ran for state Senate in this most recent election. My opponent stated over and over on the campaign trail that the legislature had cut 40 percent of the state budget over the past couple of years back to 2006 levels. Continual cuts won't cause prosperity, but instead, puts us on a path of anemic growth and unnecessary uncertainty. I would offer that we're in the neighborhood of a right-sized government budget at this point. Of course, this is without a decent capital budget to speak of. On that note, we have lots of members in the building trades who have left their families behind to work outside until work picks up in Alaska.

[3:02:21 PM](#)

Mr. Beltrami continued with prepared remarks:

I'd like to move on to addressing components of a comprehensive fiscal plan and just how to meet the needs of an approximate \$5 billion budget. We absolutely need, in our opinion, to diversify our revenue stream. Oil has been great for Alaska's

economy and I'm hopeful it will continue to be. However, to be reliant on just one volatile revenue stream is no way to pursue a sustainable plan and it has created an environment where many of our citizens don't believe they have any obligation to personally contribute to support the government services they receive. I've actually never seen anything quite like it. I moved to Alaska 29 years ago from a state just like most others that has both a state income tax and a state sales tax. When it comes to taxation Alaskans enjoy the lowest individual tax burden of any citizens in any state. Only six other states have no income tax. Only four other states have no state sales tax. Only one state in the entire United States has neither, and that's us of course. We also happen to have the lowest gasoline tax of any state in the country.

Of course, some chime in that we have extraordinarily high property taxes and I don't think that's exactly the case. According to the Tax Foundation, Alaska's property taxes on average as a percent of home values ranks as 23rd highest - right about in the middle of the pack. For over 30 years Alaskans haven't been asked to chip in to support their state government. The only state citizens in the entire U.S. who haven't. On top of that, for the same period of time, the state has cut every man, woman, and child a check in the neighborhood of \$1,000 a year. Not only have we paid zero state taxes we've essentially had a net negative contribution to state finances. We've been extremely lucky.

Thanks to the oil that has been pumped out of our oil fields, we haven't had to pay one thin dime to the state treasury except for the lowest gasoline tax in the entire country. Every other time in our short state history when we've had fiscal challenges like this we've been saved by rebounding oil prices. But nearly every economic analyst out there that I've heard from is saying that's not going to happen this time. But even if oil were to rebound significantly, it shouldn't be something that is the primary component of fiscal planning because basing an economy primarily on one volatile commodity is not sound fiscal planning. That's not to say that the oil industry should be let off the hook. There are some

serious unsustainable provisions in our current oil tax policy, but I'm confident that the House and the Senate can find some sensible compromise.

I'm not going to take a position on that because amongst our membership we are split - we have folks on both sides of the debate and I need to respect those boundaries. But, I do applaud the House's effort to offer up a complete plan. A plan that is forward looking that will take Alaska away from this volatile, unpredictable roller coaster that has worked only due to luck. A balanced, diverse plan is predictable and responsible, it will allow the credit rating agencies to restore our previously gold standard credit rating, and it won't be dependent on a fluctuating, unpredictable commodity. Implementing a broad-based revenue such as a progressive income tax, doesn't make us socialist. People who argue that we are slipping into a socialist state while they happily cash their annual government distribution of wealth don't seem to grasp the irony. In fact, the reddest of the red states besides Texas and Wyoming have both state income taxes and state sales taxes. Of course, no one wants to or should pay more taxes than is reasonable. To those who argue that it's ridiculous to continue to give us a government check while looking to taxes are not acknowledging the \$2.7 billion in income earned by nonresidents last year who get no PFD. So instituting an income tax while distributing a \$1,250 or higher dividend is a way to reimburse Alaskans for the taxes paid. To me it makes complete sense.

To those who fear Alaskans will leave if a broad-based tax such as an income tax is passed, which I've heard, I have one simple question: where are you going to go? Very few wealthy folks may leave, but where exactly will the average citizen go to be less burdened by taxes. If SB 26 passes, if HB 115 passes, if HB 60 (the motor fuel tax) passes, we will still be the lowest taxed citizens in the entire country. Now you may say that's not true - maybe Wyoming will be a little lower or maybe New Hampshire, or maybe the Dakotas somewhere. However, the average family of four in Alaska will receive \$5,000 in Permanent Fund Dividends.

[3:07:10 PM](#)

Mr. Beltrami continued to read prepared remarks:

However, the average family of four in Alaska will receive \$5,000 in Permanent Fund Dividends. Those other states won't. So if you factor that into the equation, average Alaskans will still be taking less out of their pockets than any other citizens in any other state and yet we still have the most expensive state in which to deliver services. But all in all, it will still be a better deal to live in Alaska than anywhere else in the U.S. Remember those building trades workers I mentioned who are traveling to other states to look for work. You know where they're going? To states like California, Oregon, Montana, some in the Midwest, most are headed to places that have higher personal taxes. Why are they going there? Because that's where the work is. They'll come back to Alaska if the work is here. We need a sustainable economy to do it.

Continuing to push towards a budget with a structural deficit foretells more Alaskans losing their jobs. We've already lost over 9,000 jobs in the past year and a half. How many more jobs do we have to lose? A budget plan that calls for another \$750 million in cuts and leaves us with an ongoing structural deficit is simply a recipe for more job loss in all sectors and its completely antithetical to an economic recovery. So what kind of Alaska do you want to leave for your children and your grandchildren? I know what I want or what we want. We want a plan that takes into consideration the needs of our senior citizens, not one that leaves them on the margins. We want a plan that considers the needs of our children and adequately prepares them for careers here in Alaska. A plan that doesn't force our kids to go to college or trade schools outside because we've gutted our University and vocational schools. We want a plan that has enough resources to keep our citizens safe and our roads plowed. We want a plan that helps to grow our economy, not one that causes a mass exodus. We want good jobs with decent benefits that support families.

Personally, what I want, I want to go fly fishing, all of the time. In a few years, with my wife, daughters, grandkids, and friends, without wondering if I could

have done more or more importantly, if you could have done more. I hear from opponents of a comprehensive fiscal plan that it's too much to try and tackle all at once. No, it isn't. It's certainly not a hard math problem. The solutions are right in front of you. I do, however, know the politics of it are hard. But that's exactly why you were elected. I always remember a somewhat crotchety old electrical contractor that I had to deal with when I was a brand-new business agent for the IBEW nearly 20 years ago. He has since passed, but his sons continue to run one of the largest, most successful electrical contractors in the state. We used to fight and argue, usually respectfully, mostly. We were always on the opposite side of the negotiating table, but both of us cared deeply about the success of the electrical industry. He used to always tell me this one phrase: "Just do the right thing kid and things will work out fine." Now, I appreciate the sometimes-thankless job you've all signed up to do and I know you have the best interest of the state in mind and I know it's not easy. So, just do the right thing, and do it now. We can't afford to wait. And in the end, you'll be able to say that you were the ones that finally fixed the state and put us on a sustainable path to economic prosperity and Alaskans will thank you. Thank you for listening.

[3:10:37 PM](#)

Co-Chair Foster recognized Representatives Chris Tuck, Geran Tarr, and Zach Fansler in the audience.

Representative Guttenberg referred to comments that a whole solution could not be implemented in the current year. He opined that if a solution was broken up into taking action in a few years, the practicality of it becoming a reality was slim. He stated that mostly everything on the table at present would have been a special session several years earlier. The legislature had been dealing with the topic for a long time. He asked for Mr. Beltrami's perspective about whether anything would be accomplished if action was put off until the following year.

Mr. Beltrami answered it was déjà vu all over again. He discussed the situation had occurred in the previous year as well. He stated that the previous year the solution had been to take \$3.5 billion out of savings. He feared doing

the same thing again in the current year and explained that it would impact the ability to implement a responsible, balanced fiscal plan. He did not believe they should kick the can down the road. He continued that the excuse the preceding year had been that it was an election year. He surmised it would be the same excuse in the coming year. He underscored that the tools were available, and the timing was right. He stressed it was not a math problem, it was a political problem. He supported tackling the situation at present, which would restore the state's credit rating and put money back and jobs back into the economy.

3:13:06 PM

Representative Grenn spoke to Mr. Beltrami's testimony about the loss of 3,000 jobs in the past year, probably split between private and public sectors. He asked if it had also been split between different industries and membership groups.

Mr. Beltrami replied the organization had numerous members in the oil industry, individuals working in the building trades construction outside of the oil field, and other individuals in retail and private sector businesses, and the lion's share of public employees. He relayed that the organization had lost membership across the board.

Vice-Chair Gara shared a story about fishing and Mr. Beltrami. He stated that people came before the legislature and discussed things that were most important to their given industry. He referred to Mr. Beltrami's comments about wanting a state where children and seniors are protected. He asked why, as a union representative, Mr. Beltrami was testifying to that desire.

Mr. Beltrami answered that many of the union's members were retired and had worked hard for the state or the private sector. He continued that the individuals were on a fixed income once they retired. He specified that the individuals were put into the margins if there were programs that impacted seniors. He relayed that education was the future's workforce; if the education system (for traditional careers or building trades) was underfunded it harmed the future of the state.

3:16:00 PM

Vice-Chair Gara noted there had only been a bare bones construction budget. He detailed that the state was about \$1 billion behind on maintenance at the University and another \$1 billion behind on maintenance of state buildings. He asked what a more reasonable, vibrant construction budget would mean for union members and the economy.

Mr. Beltrami answered it was the crux of the matter for most building trades individuals. He stated that capital budgets had been \$2 billion or more a few years earlier and they were around \$100 million to \$200 million at present. He stated that if it was not for some of the federal construction dollars on bases and other locations, it would be a "death nail" to many building trades members.

Vice-Chair Gara noted that he would never be in favor of the Knik Arm Bridge or Susitna Dam projects or other, but he asked what kind of projects a better construction budget would lead to for union members. He added that the state could not afford a \$2 billion capital budget.

Mr. Beltrami replied that when it came to deferred maintenance the state was \$1.6 billion behind as of January [2017]. Infrastructure in the state was potentially falling apart and there were insufficient funds to get to it. He noted that the capital budget under discussion was \$50 million or so for deferred maintenance. He believed that a budget of that amount would never address the backlog, infrastructure would continue to fall apart, and union members would not have opportunities to work. The union liked building projects. He shared that from the beginning of his career until present there had hardly ever been members out of work. There were currently members leaving the state to find jobs. He concluded that a reasonably sized capital budget was essential for the livelihoods of members.

[3:18:39 PM](#)

Vice-Chair Gara referred to various proposed fiscal plans. He spoke to a plan that included a small income tax, oil tax and credit reform, and a \$1,250 dividend. He stated that the plan did not cut schools, the University, or senior and children services. There was one option that was a partial plan, left a remaining deficit, and cut those items. He stated that Mr. Beltrami had testified in support

of the first option. He wondered why and noted it may cost some money for the union's members - larger dividend, but an income tax.

Mr. Beltrami answered that there had been a free ride for a long time. He stated that no one wanted to take more money out of their pocket, but he would prefer to have a job and pay some taxes, than have no job at all. Currently, the austerity-type approach did not do anything to encourage a thriving economy.

Representative Wilson referred to a statement by Mr. Beltrami about the PFD. She asked if union members really believed that the dividend was a government check. Her constituents believed it was a resources development check for their share of the state's oil.

Mr. Beltrami replied that when he received the PFD it was from the State of Alaska.

Representative Wilson countered there had to be a way to pay the PFD. She believed "we trade that for our subsurface rights to our properties," so everyone received a share - the government took its share first. She believed it was different than a government share - an agreement had been made for it. She spoke to her concern related to education and University cuts. She stated that Alaska spent more on education than most other states and had some of the worst results. She asked what the issue would be with revamping the education system versus only putting more money into the system.

Mr. Beltrami answered that he was not an expert in the education budget, although he could speculate. The state had greater challenges to delivering education in Alaska than anywhere in the country. The state had 585,000 square miles to cover, rural Alaskan villages, and a constitutional requirement for the state to provide education. He believed it was difficult to be competitive on a per capita basis with states that were smaller and easier to get around. Everyone wanted better outcomes. He shared that as the former director of the Alaska Joint Electrical Apprenticeship (IBEW's apprenticeship program), the program had always had qualified applicants who had all been Alaska high school graduates. He had put three daughters through the Anchorage School District who were smart and had received a good education. He emphasized that

the state could never stop working towards improving the education system.

Representative Wilson thought the state's responsibility was more than financial. She believed it was also the education level for all the state's students. She noted that someone had brought up the University and decreases. She asked if in times of decreased funding whether businesses ever became more innovative and able to change the way they operate, resulting in a positive outcome.

Mr. Beltrami answered he was sure it was possible. However, he shared that his wife was a CPA working as an adjunct professor at the University because the university could not afford to keep more professors around. He continued that it was increasingly common for professors to be laid off and adjuncts were hired. The quality of education at the University would not result in more innovative approaches if funds continued to be cut.

[3:23:40 PM](#)

Representative Wilson did not know why the University was cutting professor positions when it had a bloated statewide system with high-costs. She stressed the need to be competitive. She referenced Mr. Beltrami's testimony about individuals moving to other states because of jobs. She commented on taxes being related to the issue. She asked for verification that the overall income and the cost of food, gas, and other things were also factored into a person's decision to move to another state. She surmised that the tax level in a state was not the only thing a person considered when contemplating a move to that location.

Mr. Beltrami agreed that it came into play. However, when the state had a \$3 billion deficit and the ability to solve the problem easily except for politics and jobs were drying up, it was not that individuals were going to places with better tax treatments, it was that people were going to places with higher taxes.

Representative Wilson remarked that the state paid the most in gasoline, healthcare, education, and financially overall. She believed that politically the state needed to talk about revamping its systems and not merely adding money because it did not solve the problem.

Representative Guttenberg stated that the union had members on the University campus including United Academics, support staff, and other groups. He asked what Mr. Beltrami was hearing from the groups regarding the state of the University.

Mr. Beltrami answered there was significant disappointment or fear of uncertainty regarding the future. He believed there was significant anxiety among members that were still employed. He specified that programs were being cut left and right. He stated that the mood on campus was not good and it did not lend itself to higher morale.

Vice-Chair Gara stated that he would love to be able to magically achieve better education with fewer professors. He noted that it was no longer possible to obtain a chemistry degree in Anchorage. He remarked that numerous programs had been eliminated in the University and he did not consider them efficiencies. He remarked that the University was the biggest job training institute in the state. He asked in recent years with funding cuts if any union members had reported that the University was becoming a more attractive place to go.

Mr. Beltrami replied in the negative.

[3:27:35 PM](#)

MIKE NAVARRE, MAYOR, KENAI PENINSULA BOROUGH, spoke about the Alaska Municipal League (AML) and what it would like to see as a plan. He was currently on the executive committee of the Conference of Mayors and had served as president twice in the past. He was also a current member of AML. He shared that the league had passed priorities for a fiscal plan including a comprehensive approach that should include responsible budget cuts, oil tax reform, broad-based taxes, and use of Permanent Fund earnings. He stated there was no consensus within AML about the appropriate broad-based tax, but he believed the majority realized a progressive income tax worked better for municipalities, simply because many municipalities already used sales taxes as a way of funding local budgets. While a broad-based sales tax at the state level may work, AML wanted to know what it looked like and the impact it would have. He noted there were 100 or so different sales tax jurisdictions in the state. The league wanted a comprehensive plan because experiencing budget

cuts annually without knowing what the cuts would be, made it very difficult for municipalities to plan.

Mr. Navarre relayed that the previous evening his administration had introduced the budget to the Kenai Peninsula Borough. The borough was looking at increasing some taxes. He stressed there had been cuts at the local level. The general government administrative portion of the budget had decreased in the past two years because of the elimination of some positions in capital projects. Fewer project managers were needed, therefore, two departments had been combined. He continued that solid waste facilities had been closed for one day per week to try to effect some changes where increases had been seen. The increases were driving the borough's overall budget - just like at the state level with education - education was the biggest expenditure and responsibility.

Mr. Navarre addressed struggles at the local level. He appreciated being invited to present to the House Finance Committee on a couple of occasions because when he had been a mayor in the 1990s the Conference of Mayors had asked to be engaged in the discussion. He stressed that local government officials could help the legislature convey the message. He detailed that local mayors were closer to the population daily and were willing to help. The Kenai Peninsula Borough had seen a reduction in revenue sharing of about \$2 million over the past four or so years, which was equivalent to about \$250,000 in taxes. Additionally, due to a contracting economy, the community was seeing its sales tax revenue decline; the revenue had declined by over 2 percent in the first two quarters, which could be as much as \$3 million on an annual basis.

[3:32:45 PM](#)

Mr. Navarre continued to address how cuts were impacting boroughs. He discussed that the Department of Public Safety (DPS) had closed the Girdwood trooper station. He explained that the Kenai Peninsula Borough had a dispatch center that dispatched on behalf of the troopers. He detailed that the closure of the Girdwood station meant the troopers in Seward or Soldotna responded to public safety events in different communities. For example, there had been a domestic violence call to the Kenai dispatch center from Girdwood and the dispatchers had to remain on the phone line for more than two hours to get the response from

Soldotna (the trooper in Seward had been off duty). The Kenai Borough was very concerned about what would happen in the coming summer on the roadway. Troopers intended to have federal money used for traffic enforcement, but they would not have other troopers responding in that area. He explained it was concerning because there was only one highway between the Kenai Peninsula and the rest of Alaska. There had been a couple of events in the last month that involved active shooters on the highway.

Mr. Navarre continued to discuss the impacts the borough had seen on public safety - it was a statewide concern. He stressed the importance of healthcare and education. He knew some reform in Medicaid was needed, but he was cautious about cuts to the program, in part due to the 50/50 federal match for every state dollar spent. He appreciated the focus on the overall economy and believed it was critically important. He remarked that the economic indicators impacting the state were happening at the Kenai Peninsula level as well. For example, the borough had a couple of hospital projects - it had bid one of the projects and had an engineering team that had informed the borough it could not add on contract administration to the contract because the firm had laid off some of its engineers. The borough was currently searching to find some assistance overseeing the project. His primary concern was what the economy would look like. He acknowledged that economies are resilient and vibrant, but fragile. He explained that the last time the state had gone through a similar downturn it had some of the same components. He shared that he had been elected to the legislature in 1984 and recalled serving right when the price of oil had dropped from \$26 per barrel to \$9 per barrel.

[3:36:30 PM](#)

Mr. Navarre continued that the economy and state budgets had been smaller at the time, but the loss of revenue had impacted the state. The first thing that happened was a cut to the state capital budget while industry was cutting its employment and contracting work. He detailed that industry had cut jobs due to lower cash flow and because the North Slope had been ramped up to full production and there was not much additional investment to be made; it had been almost a perfect storm. He shared that his business had lost 50 percent in some of its stores. He detailed there had been numerous home foreclosures and other because the

funding had been turned off. He spoke to things that had pulled the state out of recession at the end of the 1980s. The price of oil had ticked back up, which helped from the state standpoint. Additionally, there had been a massive injection of spending into the economy in 1989; it had been an environmental disaster, but an economic saving grace for the state. Several billions of dollars had been injected into the economy in a very short timeframe, which helped pull Alaska's economy out.

Mr. Navarre highlighted where to go from the current point. He believed the paradigm had shifted in oil and gas. He specified that oil and gas competition was not only coming from overseas, but from the Lower 48 where there were massive fields. He stated that a person could blame the companies for not investing in Alaska; however, the companies had a fiduciary responsibility to their shareholders to get the best return on investment. He underscored that the state had to be able to compete. He argued in favor of a stable oil tax policy because companies needed to be able to make investment and get a return for the long-term.

Mr. Navarre discussed the disconnect between government services and the cost of the services. At the local level taxes were paid, but at the state level Alaska had been living off its natural resources, primarily oil. He addressed why he believed a comprehensive plan for local governments was important. He explained that local governments did not know where the next cut would be. He questioned whether additional cost shifting would occur because of Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). He questioned whether reductions in education would occur. Most of the education budget went to people - teachers and support staff. He stressed that when education was cut, people's jobs were cut. He elucidated that when cuts were made to education in a contracting economy, the economic downturn was exacerbated. He believed a partial plan changed the dynamic of the debate. He thought it may be possible for the legislature to implement part of the plan in the current year, but he stressed the importance of identifying the remainder of the components, so everyone would be aware of them. He stated that if the legislature only passed SB 26 or some similar rendition with the percent of market value (POMV) it would get part of the way there. He opined there was no responsible economic plan that worked without earnings of the Permanent Fund. He noted he had taken grief

from some of his constituents over the belief, but he did not believe there was a plan that would work without it. Budget cuts was another option the legislature had tried to focus on - he commented on the different opinions and perspectives on what could be cut or should be cut.

3:41:10 PM

Mr. Navarre asked what would happen in the following year if only a partial plan was implemented in the current year. He stated that the debate would change, and the option would be down to budget cuts, potentially going after more of the PFD, or implementing broad-based taxes. He believed it would change the debate the following year. It would mean losing one of the elements in the debate because the legislature would have taken a big piece of it off the table, which was fine. However, if it was budget cuts, many local governments (those with tax bases in particular) could absorb additional cuts. He elaborated that municipalities would have to accept the consequences or raise taxes at the local level. He furthered that it could be done, but it would take time. Municipalities were not all situated similarly - some had sales taxes, property taxes (or a combination of the two), fish taxes, or tax caps. He stressed that the response by municipalities could not be done quickly, which was the reason a long-term plan was necessary. He referred to conversation in the legislature about reducing education funding. He stated it was fine if the legislature was planning to cut education if it could own up to the consequences and communicate what the cuts would be. He believed people were willing to pay for education. He recalled when he was a child that his mother had always argued about the cost of education with a good friend/teacher. He did not believe the debate over the cost of education would end in the current year.

Mr. Navarre stated that there was no perfect plan. Whatever happened in the current year would be modified over time. He believed a plan premised on the rising price of oil was not sufficient. He observed that currently all pressure on oil and gas was downward pressure. He had read articles in the past couple of days specifying that the price of oil was dropping and that compliance with quotas for Oil Producing and Exporting Countries (OPEC) had gone from 95 percent to the upper 70s, which meant that they were cheating. When there was cheating it increased the glut on the market and drove down prices.

[3:44:22 PM](#)

Mr. Navarre did not think the differences [of opinion] in the legislature were that great. He noted that sometimes people polarized one another or issues. He did not believe legislators were that far apart. He believed everyone in the legislature wanted a strong Alaskan economy and everyone supported education. He reasoned there were differences of opinion about the level of support, but everyone ultimately supported education. He believed some of the differences at present were being driven by politics. There were some individuals who would never support any tax and others believed there were no more reductions to be made in the budget. He opined that establishing a plan that maintained some reserves, left opportunity to inject spending into the economy in the future. He reasoned that an economic contraction could not be avoided, but if the situation was handled well, a full blown economic crisis could be avoided. He hoped a budget crisis would not be turned into an economic crisis.

Mr. Navarre stressed that the last economic downturn in the 1980s had been very bad, which he believed could be avoided. He thought deferred maintenance should be addressed prior to the construction of any new buildings. He remarked that every time the state got some money it built new facilities and continued to defer maintenance on other facilities. Local governments would also be impacted by the school bond debt reimbursement program that had been changed because of a commitment that local governments were adding to the state budget. He shared that the last time the Kenai Peninsula Borough had done a bond issue it had been almost \$20 million (\$18.5 million had been for roof repairs and replacement for energy efficiency savings). The community received 70 percent reimbursement from the state. The other bond issue had been for a turf field - two had been funded by capital grants and the community had bonded for the third.

[3:48:22 PM](#)

Vice-Chair Gara stated that the legislature was either going to do a fiscal plan or not. He was not willing to get reelected by telling people the state could get away with no fiscal plan and that everything would be okay. He believed that would result in a deep recession. He spoke about the concept of a partial fiscal plan. For example,

only cutting the dividend to \$1,000 and doing nothing else. He stated a partial plan would not solve the deficit - there would still be pressure to cut schools. He did not foresee solving the entire budget gap the coming year as it was an election year. He reasoned that action taken in 2019 would mean it could probably not be implemented until 2020 or 2021. He asked if there was concern that the problem would not be solved for years if the can was kicked down the road.

Mr. Navarre replied in the affirmative. He reasoned that a plan could include some trigger points. He stated there was substantial talk about additional budget cuts and the price of oil going up. He questioned what would occur if those things did not happen. He recalled his legislative experience where statements had been made that if one party agreed to do something one year, the other party would agree to doing something else in the next year. He remarked that it did not really work that way. He elaborated that "whatever happened last year, happened last year"; it changed the dynamic of the debate.

Vice-Chair Gara stated he could claim that cutting hundreds of millions of dollars from the budget would not have an impact on the economy. However, he knew and had read the studies showing that major budget cuts did have an impact on the economy. He asked how further large cuts (such as a proposal to cut another \$200 million per year) would impact the economy. He asked if it would support a stable economy or would cause the economy to continue to contract.

Mr. Navarre answered that the economy would continue to contract if that was done. He shared that his company had sold some property and had some cash it would be willing to invest. He stated it was not currently a good environment for investment because there was way too much uncertainty in the state at present due to the lack of a plan. There was no certainty for the oil and gas industry, private investment, or for funding and passthrough funding for local governments. The uncertainty was already putting a damper on investment. He compared the situation to a snowball rolling downhill - it would pick up momentum and would be unstoppable when it became large enough. He had shared the concern with the shareholders of his company. The company was preserving cash because he believed it would be needed. He reiterated his earlier testimony that the company had gone through 50 percent loss of sales in

the 1980s. He was cautiously optimistic it would not happen, but it was a concern. He concluded there was significant anxiety over the economic outlook - all the indicators were going the wrong way except for healthcare, which was dependent on a strong economy. He believed healthcare would eventually turn as well.

[3:53:33 PM](#)

Co-Chair Seaton provided a scenario where the legislature was looking at 5 percent cuts to education, \$20 million to the University, and \$40 million to the Department of Health and Social Services with a \$500 million deficit the following year. He asked if there was some other place where similar cuts could be achieved or if the same items would continue to be cut.

Mr. Navarre answered that education and health and social services used most of the budget resources and both were critically important. He believed that at some point the state would return to a stable economy and spending. In the short-term with education cuts, children currently in school were the ones who would be negatively impacted. He furthered that those children did not get to make the time up. He shared that he had been recently speaking to a young man who was thinking about starting a family and had graduated five years earlier. The individual had said that five years earlier, many graduates of Nikiski High School had the opportunity to go to work in the oil and gas industry or a support industry due to an aging workforce. The individual had been concerned and was asking for assurance there would be opportunity for his family in Alaska. He had told the individual yes, because he believed in the long-term the state would get through the problem, but short-term there would be struggle.

Representative Grenn referred to Mr. Navarre's testimony about a reduction in revenue sharing, decreasing sales tax revenue, and impacts to public safety. Mr. Navarre had also discussed speaking to various groups about the immediate need for a fiscal plan. He asked about the public's reaction.

Mr. Navarre replied it had been favorably received and many people had stated they had not considered the issue in that way previously. In terms of economic development, there was a state cost (for things like public safety and education)

for every person who moved to Alaska. Part of the problem was that disconnect in the past two generations.

3:57:20 PM

Representative Grenn provided a scenario where a company offering 5,000 jobs moved into the Kenai region. He surmised it would be a benefit to the Kenai region, but the cost to the state would be a negative impact.

Mr. Navarre answered in the affirmative. He relayed that he had been consistent with that perspective since he had chaired the committee in 1991 and 1992. The state could not afford economic development in Alaska - it was a net loss to the state - unless it was in oil and gas.

Representative Wilson asked whether development of newly discovered oil projects would positively impact Kenai.

Mr. Navarre answered that oil and gas development started on the Kenai Peninsula and had given Congress confidence that Alaska could pay some of the cost to provide services to residents. There was significant oil and gas industry based on the peninsula that provided services to the North Slope. There were many residents in Kenai who worked on the slope and many service companies working in Cook Inlet and on the slope.

Representative Wilson thought it appeared that getting HB 111 correct would be very important to Kenai for development to continue.

Mr. Navarre replied in the affirmative. He believed there would continue to be and should be oil and gas investment in Alaska. He believed a stable tax policy was necessary, but he also believed the state needed a fair share. He recognized the realities of trying to ensure the state could encourage the investment it needed to get production in place and receive royalty revenues and production taxes.

Representative Wilson imagined Kenai would benefit as much as Fairbanks. She remarked that the last time the legislature had gotten oil taxes wrong, it had devastated Fairbanks. However, when the legislature had gotten oil taxes right, it had been a turnaround for Fairbanks.

4:00:19 PM

Co-Chair Foster recognized Representative Gabrielle LeDoux in the audience.

#sb32

SENATE BILL NO. 32

"An Act relating to biological products; relating to the practice of pharmacy; relating to the Board of Pharmacy; and providing for an effective date."

4:01:01 PM

SENATOR SHELLEY HUGHES, SPONSOR, asked for direction on the bill presentation.

Co-Chair Foster answered that a brief overview would suffice.

Senator Hughes complied. She explained that the bill would update statutes to allow pharmacists to substitute a new category of medicines called interchangeable biologic products. The medicines were life-changing for people with debilitating diseases and could make the difference between being bed-ridden or up and functional. The drugs were not the same as generics. She detailed that a biologic is made from a living cell and is a complicated molecular structure. Whereas, a generic drug copies a recipe. She furthered that a biosimilar or interchangeable biologic was trying to replicate a complex cell and the items would not be identical. The bill maintained the physician's control - if the doctor did not want a substitution they could write "dispense as written (DAW)." If the doctor wanted to know whether an interchangeable was available, they could ask the pharmacist to call if it was available. A pharmacist could do the substitution if it was not written on the script pad, but they would be required to communicate the substitution to the physician. The bill also required the pharmacist to receive the patient's consent prior to making a substitution.

Representative Wilson asked if the bill pertained to compound prescriptions.

Senator Hughes replied in the negative. She stated there were entrepreneurs, small companies, and large pharmaceutical companies who were currently working to make

more affordable biologic products as biosimilars and to raise them to the standard where there would be no different clinical reaction for the patient. She relayed that 33 states had passed similar legislation and 7 others had pending legislation. The states had done analysis and had determined there should be some savings to Medicaid budgets because biologics were expensive. Interchangeable biosimilars should help the budget. She did not want to make a claim about what the savings may be, but some states had done so. She continued that the Centers for Medicare and Medicaid Services (CMS) believed interchangeable biosimilars should bring down the cost for Medicaid.

Representative Wilson referred to the fiscal note that included the following language: "in addition this bill requires the Board of Pharmacy to post and maintain a link to the U.S. Food and Drug Administration's list of currently approved interchangeable biological products on the board's website." She asked if the board already had to post medications and how much the bill would cost pharmacies.

[4:06:49 PM](#)

Senator Hughes answered that pharmacists could choose whether to carry interchangeable biological products. Most pharmacists had automated systems to contact physicians. She did not know whether there was a current link to post medications. She thought it was a simple thing. She believed the fiscal note was related to the requirement for the board to send something out by mail to pharmacists around the state. She thought the legislature may want to consider why the information was not being sent electronically.

Representative Wilson explained that her question was not related to the fiscal note because the state did not normally care about the cost for the private sector - it only cared about the cost to the state. She asked for follow up on whether there would be a cost to pharmacies or whether it was something the pharmacies already did. She asked about the fiscal note and the legal costs to amend the regulation and printing and postage in the first year. She noted the funding source was receipt services. She asked if all business licenses would pay. She wondered why it was a receipt service "for this area." She reasoned bill's goal was to make things easier for Alaskans. She

wondered if the Board of Pharmacy would be solely responsible for paying or whether all corporate licensing would pay a portion for the writing of regulations.

Senator Hughes replied that she would follow up. She reiterated that pharmacists could choose whether to carry interchangeable biological products. She specified that not all pharmacists would carry the products that were highly specialized. She deferred to the department for further detail.

JANEY HOVENDEN, DIRECTOR, DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, answered that they were receipt supported services and the pharmacy program would pay through licensing fees. She could not imagine the cost impacting every licensee. It was a nominal one-time cost to do the regulation project.

[4:09:44 PM](#)

Representative Wilson asked if pharmacists had asked for the bill. She surmised it appeared to be an improvement over what could be given to Alaskans. She was trying to determine why the fiscal note would not come out of general funds versus being charged back to the pharmacist. She stated the situation was unique - typically items were more closely related to the board when they were paid for by the board. She observed that the bill was different because it was trying to do something positive for Alaskans by making medication more affordable and did not necessarily fall under the board's responsibility.

Ms. Hovenden replied that the changes would impact the statutes of the pharmacy program; the Board of Pharmacy members would help design the regulations to implement the legislation.

Representative Kawasaki asked for verification that a biosimilar was not identical to another product. He asked for the difference between a biosimilar and an interchangeable.

Senator Hughes answered that a generic is a duplicate of a medicine made of various chemicals and ingredients - there was no requirement to communicate between the pharmacist and the doctor. A complicated biologic called a biosimilar

was made from living cells (e.g. Insulin and Humira). Companies were trying to develop a product that would have the same clinical impact. The companies were using the same basic thing, but because they were using living cells the product would never be 100 percent identical. The interchangeable biosimilar or interchangeable biologic product was the gold standard of the biosimilar. She detailed that the FDA would test and approve the product as interchangeable because if administered to a patient, the patient would have to have the same clinical results whether they were taking the original biologic, were alternating between the original biologic and the interchangeable, or were only taking the interchangeable. There would be no difference in the clinical results. She continued that biosimilars would not all fit within the interchangeable category. She clarified that the doctor would have to specify on a script when a biosimilar was not categorized as interchangeable. It was a new category that would be somewhat like a generic, but not identical (it would be clinically similar, but the genetic makeup would be different).

Representative Kawasaki shared that he took fish oil for cholesterol for triglycerides. He detailed that prescription fish oils were ten times the price of non-prescription fish oils. He asked if a fish oil was considered biosimilar.

DR. THOMAS FELIX, DIRECTOR, MEDICAL RESEARCH, AMGEN INC. (via teleconference), communicated that he had worked with the coalition of organizations to present coalition language included in the bill. He replied that a fish oil was not considered a biosimilar product. A biosimilar was something that took a very specific regulatory pathway for approval by the FDA to try to create and reference an existing biologic. A fish oil was not as closely regulated as a biologic and another fish oil from a different manufacturer would not be considered a biosimilar. It was necessary to take the 351(k) pathway to be considered a biosimilar.

Representative Kawasaki asked if fish oil would be considered a biosimilar product if it was regulated as other specific drugs.

Mr. Felix believed the question was whether fish oil would be considered a biologic because it was derived from living

tissues. He relayed that it could be considered a biologic in a very technical definition, but for regulatory purposes it was not considered like or governed like biologics would be. However, in a technical term, because it was derived from living tissues or living cells, it was possible to say that it was a derivative of a biologic entity.

Representative Kawasaki asked for verification that the point was for a biosimilar to mimic the exact same thing that an interchangeable would do.

Mr. Felix replied it was important to understand why a new industry had been built around the development of biosimilars. He explained that biologic drugs had been on the market for over 40-plus years and intellectual properties around long-existing biologics were coming off patent. He furthered that biosimilars or versions of the older products coming off patent were intended to create competition to lower healthcare costs and the analog was generics. Biosimilars were coming to the market to do what generics have done, but with a different scientific framework and expectation financially.

Representative Kawasaki relayed that the bill packet included a letter of opposition from the Board of Pharmacy. He thought the board may support a bill like the one under consideration. He asked for comment.

Senator Hughes answered that there were some pharmacists in support of the bill. She explained that pharmacists would prefer having the ability to substitute [drugs] without making the communication. Physicians would probably prefer total control and that substitutions could not be made. She detailed that because of the ability for physicians to specify "dispense as written" they ultimately had full control. She furthered that the change the bill would implement would be best for the patient in terms of affordability. The extra step was communication - something pharmacists did not have to do with generics. Her understanding was that the pharmacies - the number would be relatively low because there were a limited number of individuals with applicable diseases - would probably have the automated system set up, meaning it would not be burdensome. She relayed that the State Medical Association, Alaska State Hospital and Nursing Home Association (ASHNHA), the Alaska Commission on Aging, and the Alaska

Cancer Action Network were all in support of the legislation.

Senator Hughes corrected her earlier example of biosimilar drugs and clarified she had been referring to the drug Humira for rheumatoid arthritis. She shared an example of a Vietnam veteran from Wasilla named Cajun Bob. She detailed he had been featured in Life or Time Magazine in the 1960s. He had been bed-ridden, and the use of a biologic drug had given him a new lease on life. She stressed the importance of the drugs for Alaskans with debilitating diseases. She discussed that sometimes the effectiveness of a medication wore off for an individual, making it necessary to switch to a new medicine. The goal was to ensure individuals would have immediate access to all options.

4:20:15 PM

Representative Kawasaki referred to a letter of opposition from the Alaska Rheumatology Alliance in the packet. He added that members' packets were very comprehensive with letters of support.

Senator Hughes replied that her office had worked with the group and it had been helpful for them to learn that they could specify to dispense as written and maintain control.

Representative Kawasaki provided a scenario of the receipt of a prescription. He thought in the past he had been asked by the pharmacist whether he wanted the cheaper generic prescription. He asked how it would work with a biosimilar.

Senator Hughes answered that the physician would prescribe the biologic. When the patient went to the pharmacy to pick up the prescription the pharmacist would notice there was an interchangeable and would ask the patient if they wanted the interchangeable. She noted that the interchangeable was the FDA approved gold standard. If the patient selected the interchangeable, the pharmacist would be required to inform the physician within three business days that the substitution had been made. She stated that with most pharmacies the information would be instantaneously communicated as the medicine was processed and provided to the patient.

BUDDY WHITT, STAFF, SENATOR SHELLEY HUGHES, referred to an earlier question by Representative Wilson and wanted to

ensure he understood the question. He noted she had been speaking about links to the FDA's list. He thought he had heard her ask if the pharmacist had to post links. He clarified that the Board of Pharmacy had to post the link to the FDA website with a list of all the interchangeable biological products approved by the FDA. The bill did not require individual pharmacists to provide the information.

[4:22:42 PM](#)

Representative Ortiz asked how long the term biosimilar had existed.

Senator Hughes deferred the question to Dr. Felix.

Mr. Felix responded that the term biosimilar had existed since the early 2000s when Europe had been first considering development and existence of a pathway forward for biosimilars. The issue had arisen because their intellectual properties were expiring [audio indecipherable].

Representative Ortiz surmised that the movement towards biosimilars was based on similar motivations of movement towards generics, which had probably taken place in the 1970s or 1980s. He believed the motivation was about trying to provide medications that were equally as effective at a lower price.

Senator Hughes replied in the affirmative. The intent was to increase access and affordability.

Representative Ortiz referred to a letter of opposition from the Board of Pharmacy dated March 6, 2017. He asked for verification that the group was still in opposition to the bill.

Senator Hughes replied that the board had not submitted a letter of support, but individual pharmacists and a national pharmacy association had vocalized support for the bill. The individuals understood the importance of access to the medicines. She stated that the Board of Pharmacy retained its position.

[4:25:12 PM](#)

Representative Guttenberg believed the biosimilars were a good thing. He referred to letter from the Board of Pharmacy. He believed one of the problems was related to who was paying the bill and who had the burden of fulfilling the legislative requirements for reporting by doctors and pharmacies. He thought the issue of payment may mean large-scale pharmacies would be supportive, but small-scale pharmacists may feel burdened. He referred to the last few lines of the letter - the board believed the bill would create an unintended barrier to access. The letter also stated there were currently no available interchangeable biosimilar medications on the market. The board did not see the need for legislation regarding biosimilars, but wanted the legislation to follow the BPCI Act of 2009 [Biologics Price Competition and Innovation Act] and its intent of increasing access to medication. He asked if any changes had happened in the bill regarding some of the board's position on the bill. He did not know what the BPCI Act was. He asked for detail about the act and about the bill's conflict with the act.

Senator Hughes deferred the question to Dr. Felix.

Mr. Felix replied that the BPCI Act allowed the FDA to create regulatory pathways for approval for biosimilars and interchangeable biologic products. The act had been passed in March 2010 as part of the Affordable Care Act (ACA); it was one of the few portions of the ACA with bipartisan support. He believed the most important recent development was that, at the beginning of the year, the interchangeability designation finally had a draft guidance released by the FDA. The guidance provided transparency to the community in terms of what was required to obtain interchangeability. He spoke to the importance of understanding that for companies that were not developing biosimilars or interchangeables, the area had previously not been clear. However, for developers of biosimilars or interchangeables, the FDA had been transparent in terms of providing direction for the development of clinical trials and data requirements. There had been companies that had completed clinical trials that may satisfy the requirements for an interchangeability designation. Additionally, companies had announced starting clinical trials to pursue an interchangeability designation. He stated that sometimes there was a description that the only reason the legislation was needed was to ensure the facilitation of interchangeability and that substitutions could be made by

pharmacists. In general, the community was not aware of what biosimilars were as compared to generics. He shared that five biosimilars had been approved to date [audio indecipherable]. He noted they were awaiting an approval of an interchangeable in the future. People typically thought of biosimilars as generics - most generics were substitutable - but biosimilars were not substitutable. Another reason to pass legislation was to clearly communicate how to use the products when they were approved under different designations.

Co-Chair Foster passed the gavel to Vice-Chair Gara.

Vice-Chair Gara remarked that some of Dr. Felix's testimony had been difficult to hear.

Mr. Felix apologized and reiterated his previous remarks. He restated his previous testimony related to the creation of the BPCI Act and draft guidance released by the FDA in January on the path to obtaining the interchangeability designation. He explained that were companies that had completed trials to try to achieve an interchangeability designation. When they would be approved was currently unknown. Companies had also announced they would be interchangeability trials to pursue the designation. He underscored the importance of the legislation because it would facilitate substitution of an interchangeable by a pharmacist.

[4:32:18 PM](#)

Mr. Felix reiterated that the legislation clearly communicated how to use biosimilars and interchangeables when they were approved under different designations. The five biosimilars approved to date were only biosimilars and did not have the FDA designation that would allow substitution by a pharmacist. He explained that the products were very different than how generics were viewed. If the community was uneducated and began to think of biosimilars as approved and immediately used their closest analog, which was generic approval, the community may think the biosimilars were substitutable unless clear terms of use were in place. He stated that every aspect of healthcare was trying to increase communication between members of the healthcare team. The bill would allow transparency for a prescriber to know what was ultimately dispensed to the patient for the prescriber to be on top of

their care. If there was any change in a patient's response to a medication the prescriber would know exactly what medication the patient was on.

Representative Guttenberg spoke to who was paying the bill. He observed that Dr. Felix had not stated whether any of the products were approved by the FDA. He referred to Dr. Felix's testimony about clarity and transparency. He wondered why the decision would not be handled in the doctor's office instead of at the pharmacy. He continued that patients were often in a hurry at the pharmacy and were amenable to whatever was given to them. Alternatively, he thought it made sense to have the physician tell patients what they would receive. He referred to Dr. Felix's earlier testimony that many practitioners and people were not up on the issue. He thought the doctor's office was the best place to do prescribing. He continued that the doctor could specify for a pharmacist to only prescribe a prescription as written.

Mr. Felix answered that biologics were distributed through either a medical benefit (administered by a healthcare professional) or were self-administered (pharmacy benefit). The legislation pertained to biologics that were self-administered. The medications would not be dispensed in a physician's office. Often the pharmacist would be the first to become aware, especially when an interchangeable was approved in the marketplace. He explained that medical benefit biologics were typically administered by a healthcare professional in a clinic, hospital, or office setting. Whereas self-administered biologics meant a patient self-injected the medication. The physician or their delegate would not be directly administering the product to the patient. The method of facilitation of substitution by a pharmacist had worked well for generics and had worked to lower cost and facilitate access.

[4:38:02 PM](#)

Senator Hughes referenced Representative Guttenberg's comments about the letter from the Board of Pharmacy. She agreed there were not any [interchangeables] on the market; the products were in the testing phases. There had been a projection that the products could be out within a month to a year. The primary issue was that they did not want to wait an extra year to provide the products (if they became available) to Alaskans suffering from diseases such as

lupus, multiple sclerosis, and rheumatoid arthritis. She reiterated her earlier testimony that pharmacists did not have to carry the products. She relayed that if the communication requirement was not included, it would be bad for patients - patients wanted the substitution listed in their medical records; doctors needed the information because they were not 100 percent identical like a generic.

Representative Wilson asked who had requested the bill.

Senator Hughes replied it had been a combination of patient groups and companies developing the products. The companies were spending millions on product development; if statutes were not set up, patients would not have access to the products. The individuals suffering, who had tried a biologic, wanted continued access.

Representative Wilson stated it had been her understanding that a pharmacist would have to call the physician prior to giving the product to a patient; however, that was not the case. She summarized that there was discussion between the pharmacist and the patient, the patient made the determination, and the doctor may not know what happened for three days. She was uncomfortable with that process. She referred to a letter in members' packets from a physician specifying their practice would be in harm's way because they were not notified right away. She requested to hear from the Board of Pharmacy at a future hearing. She remarked that the bill would charge pharmacists and they had not asked for it. She asked for additional information at a future hearing.

Senator Hughes reiterated that the State Medical Association supported the bill. She explained that a physician could retain control by specifying a prescription was to be dispensed as written. She added that the products were FDA approved and clinical results would be no different than the original reference product.

Representative Wilson understood, but she surmised it could constitute a significant medical change. She wanted to be very careful. She surmised there could be a change from what the physician wanted. She wanted to ensure all parties were involved, not only groups or outside entities.

[4:42:45 PM](#)

Mr. Whitt pointed to Section 4 of the bill that specified a pharmacist who substituted a biologic in compliance with the section did not incur any greater liability than would be incurred in filling the original prescription. The section also specified the dispense as written provision.

Representative Wilson noted that her concern was with Section 5 related to the three-day timeframe a pharmacist had to communicate a prescription to a physician. She was concerned about the liability to the physician. She was certain that if a person had side effects it would be the physician who was accountable. She stated that prescribing was a physician's duty. She was concerned that the Board of Pharmacy would have to pay for something it was not in favor of. She had not understood earlier that the pharmacy would be telling a physician what prescription was dispensed without obtaining approval from the physician.

Senator Hughes noted that the process for medication to be approved by the FDA was incredibly rigorous. She furthered that if a medication was categorized as interchangeable, there was a high assurance level, which was the reason for the State Medical Association's support of the bill.

Representative Wilson clarified her concern was that pharmacists were not doctors. She stated that a patient could receive a doctor prescription, but then go to a pharmacy and get something that was slightly different. She was concerned that the doctor would not know for up to three days what prescription had been dispensed. She spoke to the liability to the physician. She believed the bill would allow a medical decision to be made by the pharmacist and patient. She had initially believed the doctor would know about the prescription before it had been dispensed.

Senator Hughes answered that the types of pharmacies that would be handling the expensive medication would more than likely have instantaneous notification to the physician. She reasoned that the FDA's rigorous process had been trusted with great success and savings.

SB 32 was HEARD and HELD in committee for further consideration.

Co-Chair Foster addressed the schedule for the following day.

#

ADJOURNMENT

4:46:30 PM

The meeting was adjourned at 4:46 p.m.