

HOUSE FINANCE COMMITTEE

May 4, 2017

1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 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 Mark Neuman, Alternate
Representative Lance Pruitt
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

Representative Cathy Tilton

ALSO PRESENT

Randall Hoffbeck, Commissioner, Department of Revenue; Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Brian Fechter, Policy Analyst, Office of Management and Budget, Office of the Governor; Senator Bert Stedman, Sponsor; Representative Jonathan Kreiss-Tomkins; Melissa Kookesh, Staff, Senator Bert Stedman; Liz Cabrera, Community and Economic Development, Petersburg; Speaker Bryce Edgmon.

PRESENT VIA TELECONFERENCE

Marty Parsons, Deputy Director - Mining, Land, and Water Division, Department of Natural Resources, Anchorage.

SUMMARY

SB 28 MUNICIPAL LAND SELECTIONS: PETERSBURG

SB 28 was HEARD and HELD in committee for further consideration.

OVERVIEW: THE ECONOMY and FISCAL POLICY:
COMMISSIONER RANDALL HOFFBECK, DEPARTMENT OF REVENUE

OVERVIEW: THE ECONOMY and FISCAL POLICY:
PAT PITNEY, DIRECTOR, OMB, OFFICE OF THE GOVERNOR

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Co-Chair Seaton called the meeting to order. He reviewed the agenda for the day. He indicated Representative Neuman was filling for Representative Tilton. The committee would be hearing an introduction to SB 28. He noted Speaker Edgmon was in the audience.

^OVERVIEW: THE ECONOMY and FISCAL POLICY:
COMMISSIONER RANDALL HOFFBECK, DEPT. OF REVENUE

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RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, introduced the PowerPoint Presentation: "Overview: The Economy and Fiscal Policy." He would be focusing his presentation based on administering policy long-term from the commissioner's perspective.

Commissioner Hoffbeck began with slide 3: "State Revenue: Alaska Department of Revenue":

The Department of Revenue mission is to collect, distribute, and invest funds for public purposes.

Commissioner Hoffbeck continued that that he would be looking at the implications of the legislation.

Commissioner Hoffbeck continued to slide 4: "State Revenue":

Permanent Fund Restructure
New Revenues
Expenditure Reductions

Commissioner Hoffbeck noted there were three components of a fiscal plan: Permanent Fund Dividend (PFD), new revenues, and expenditure reductions.

Commissioner Hoffbeck relayed slide 6: "Impact on State Revenue of a Narrow Revenue Base: Economics of Taxation":

Throughout history, every organized society had some form of government. In free societies, the goals of government have been to protect individual freedoms and to promote the well-being of society as a whole. Governments pay for these services through revenue obtained by taxing three economic bases: income, consumption and wealth. The Federal Government taxes income as its main source of revenue. State governments use taxes on income and consumption, while local governments rely almost entirely on taxing property and wealth. More specifically the Federal Government relies mainly on income taxes for its revenue. State governments depend on both income and sales taxes. Most county and city governments use property taxes to raise their revenue.

U.S. Department of Treasury Resource Center

Vice-Chair Gara asked if questions would be taken at the end.

Co-Chair Seaton asked members to hold questions until the end of the presentation.

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Commissioner Hoffbeck discussed slide 7: "Impact on State Revenue of a Narrow Revenue Base: How Volatility of Tax Revenue Compares":

Alaska had the highest overall volatility score—34.4—meaning the state's total tax revenue showed wide variability from year to year, typically fluctuating within 34.4 percentage points above or below its overall growth trend. The next most volatile tax revenue streams were in Wyoming (12.1) and in North Dakota and Vermont (both 11.6).

Representative Grenn asked if there was a score in mind to achieve.

Vice-Chair Gara asked the score was a rating. He was uncertain the meaning of the score.

Commissioner Hoffbeck responded that the 34.4 percent was the measure of the average fluctuation. He stated that it was the expected revenue in any given year.

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Representative Wilson noted that Illinois wondered whether the 34.4 percent was related to revenue only, or whether the number reflected the debt.

Commissioner Hoffbeck replied that the number related to the revenue portion of the equation.

Commissioner Hoffbeck advanced to slide 8: "Impact on State Revenue of a Narrow Revenue Base":

States that showed the largest severance tax revenue decreases in were all major oil producers.

Alaska

Severance Taxes: Decreased of 95.7 percent
Total Tax Collections: Decreased of 74.6 percent

Texas

Severance Taxes: Decreased of 33.4 percent
Total Tax Collections: Decreased of 0.1 percent

North Dakota

Severance Taxes: Decreased of 13.5 percent
Total Tax Collections: Decreased of 6.2 percent

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Representative Ortiz asked if Texas and North Dakota had a gross tax system.

Commissioner Hoffbeck responded in the affirmative.

Commissioner Hoffbeck continued to slide 9: "Impact on State Revenue of a Narrow Revenue Base." He noted the spikes in 2007 and 2012.

Commissioner Hoffbeck scrolled to slide 10: "Impact on State Revenue of a Narrow Revenue Base." He remarked that petroleum failed to provide stable revenue for funding government services., and failed to react to adjustments in the economic changes. He remarked that the robust oil and gas revenues have masked its inability to adjust to economic conditions.

Representative Wilson asked wondered whether the 2017 number reflected the forecast or actual numbers.

Commissioner Hoffbeck answered that it was the fall forecast numbers.

Representative Wilson requested a slide that reflected the spring forecast numbers.

Commissioner Hoffbeck advanced to slide 11: "Impact on State Revenue of a Narrow Revenue Base":

The Commodities Roller Coaster -
The International Monetary Fund studied 85 economies over 3 decades

Government spending in commodity- based economies tends to move up and down with commodity revenue

Pro-cyclical government spending stunts economic growth

Stabilizing fiscal policy has the inverse effect, increasing GDP growth by 0.3 percent annually

Commissioner Hoffbeck reviewed slide 13: "Benefits to State Revenue of a Broader Revenue Base":

1. Close the Fiscal Gap (Revenue)
2. Spread the Impact of the Fiscal Solution (Fairness)
3. Stabilize the Budget (Certainty)

4. Adjusts Revenues based on Economic Growth (Durability)

Commissioner Hoffbeck detailed slide 14: "Close The Fiscal Gap." He reviewed the numbers on the slide. He remarked that the legislature would not be in the room discussing the subject. He also wanted to expand on subject other than just increasing revenues.

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Commissioner Hoffbeck turned to slide 15: "Spread the Impact of the Solution." He relayed that the slide showed many options for coming up with a solution. He pointed out that it did not matter the revenue source, it was an issue of generating revenues and determining the right source such as a sales tax or income tax.

Representative Ortiz asked if it was the commissioner who thought it was correct that there would be impacts to any of the revenue options.

Commissioner Hoffbeck replied in the affirmative. He hoped to stay focused on the narrow topic of what the revenues mean to the state.

Vice-Chair Gara felt like the chart was a year old. He thought that the number reflected because of the decrease in the dividend.

Co-Chair Seaton urged members to hold their policy discussion to the end.

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Commissioner Hoffbeck explained slide 16: "Stabilize the Budget: Draw Limit with \$1.2 B Threshold. The benefit to having a revenue structure was dependability. It showed that the underlying taxes or fees created a stable economy, however, they did not fill the fiscal gap on their own. Currently the administration was using the constitutional budget reserve (CBR), however, eventually savings would run out.

Co-Chair Seaton clarified other new unrestricted general fund (UGF) revenues and the CBR would fund government as

long as there was new revenue, resulting in eliminating the percentage of market value (POMV) draw would be eliminated.

Commissioner Hoffbeck responded that he was attempting to clarify that all the other new revenue sources were only the CBR.

Representative Wilson wondered why there was not a steady income reflected in the model.

Commissioner Hoffbeck replied that the model reflected a volatile calculation to show the impact of the POMV draw limit on a highly volatile system. He stated that the top blue represented the total revenue source, and underneath showed the various interactions between the POMV and the oil and gas tax. He stressed that there would still be spikes and low points.

Co-Chair Seaton recognized Representative Stutes and Representative LeDoux in the audience.

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Representative Ortiz suggested that the potential volatility would be the result of potential differences in performances of the investment in funds.

Commissioner Hoffbeck responded in the negative. He stressed that the volatility was driven by oil and gas tax royalties and tax revenues. The POMV draw adjusts to account for the volatility in oil price. He stated that the POMV draw was assumed to be stable, and only drawn as much as necessary.

Commissioner Hoffbeck slide 17: "Stabilize the Budget: Combined SBR and CBR Balances." He stressed that the state had relied on the reserves to balance the budget. The reserves started at \$16.3 billion in 2013, and with no solution by FY 19 the CBR would be out of money.

Representative Wilson pointed out that there was currently \$4.7 billion in the CBR.

Commissioner Hoffbeck replied that with no POMV, the CBR would be at \$2.1 billion.

Representative Wilson stressed that neither budget currently had a draw from the CBR.

Commissioner Hoffbeck reviewed slide 18: "Adjusts Revenues Based on Economic Growth":

- \$5 million a year in additional borough sales taxes
- \$27.5 million a year in increased school funding
- \$20 million a year in borough and service area property taxes on homes
- \$10 million a year in borough and service area property taxes on widget factory investment

Commissioner Hoffbeck moved to slide 19: "Adjusts Revenues Based on Economic Growth - Continued":

- \$10 million a year in higher expenses for troopers, highways, courts, prisons, Medicaid, childcare assistance, etc.
- \$45 million a year in increased school funding costs

Commissioner Hoffbeck scrolled to slide 20: "Adjusts Revenues Based on Economic Growth - Continued." He stressed that the state's only ability to capture economic growth was associated with the oil and gas industry.

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Commissioner Hoffbeck suggested there were other available options. He stated that there was an idea that expenditure reductions was the preferred solution: reduce the size of government to better fit the revenue profile.

Commissioner Hoffbeck advanced to slide 22: "Expenditure Reductions to Date." He stressed that substantial cuts had already been made. He reviewed the numbers on the slide. He offered that there was no cut within the Department of Revenue (DOR) that would be good business. He suggested that he could cut a dollar but lose 3 in federal funding. Currently, there was not much left to reduce in the budget in DOR.

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Commissioner Hoffbeck discussed slide 23: "Expenditure Reductions to Date: Unrestricted General Fund Reduction by Agency FY 15 Management Plan to FY 18 Governor." The slide reflected the areas that had been cut.

Commissioner Hoffbeck continued to slide 24: "Expenditure Reductions to Date: 2,500 October 2014 through October 2016 State Employee Job Losses." He indicated that this slide also reflected job losses in the state.

Commissioner Hoffbeck turned to slide 25: "Expenditure Analysis: Special Alaskan Circumstances." He explained that the analysis reflects an extra cost of about \$4000 per person.

Commissioner Hoffbeck explained slide 26: "Expenditure Analysis: National Comparison":

National Comparison:

Alaska per capita spend: \$9,096.80
Less special circumstances: (\$3,940.86)

Adjusted Comparison: \$5,155.94 per person (Within
7.2 percent of US average of \$4,808.40)

Vice-Chair Gara referred to slide 25. He wondered whether the \$100 per person to pay for oil and gas tax credits was based on the annual average of what was owed, spending, or what was accruing in each year.

Commissioner Hoffbeck responded that the number reflected the 700,000 times \$100 was approximately \$70 million, so it was the statutory rate for payments on the credits.

Vice-Chair Gara suggested that if the state owed about 41 billion it would be equal to about \$1000 per person.

Representative Ortiz asked about the fisheries tax reflected on the same slide.

Commissioner Hoffbeck continued to speak about the instability in the economy.

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Representative Wilson did not understand the instability if it was left up to the municipalities.

Commissioner Hoffbeck responded that if the \$750 million in cuts targeted amounts had been submitted without the details of how to meet the target amount. The hard decisions had not been made yet.

Representative Wilson thought the discussions should be occurring presently to understand how the municipalities would cover the programs.

Commissioner Hoffbeck had a slide that discussed the issue.

Commissioner Hoffbeck reviewed slide 28: "Impacts of Not Having a Broader Revenue Base":

1. Requires reliance on accurate forecasting of volatile revenues (Uncertainty)
2. Leaves a Structural Deficit (Depletes savings and creates uncertainty)
3. Concentrates the Impact of the Fiscal Solution (Less pay More)
4. Destabilizes the Budget (ERA at Risk)

Representative Guttenberg mentioned that the commissioner had mentioned instability frequently. He remarked that there was no replenishing of the reserves, so there was destabilizing the future.

Commissioner Hoffbeck agreed. He stated that the structural deficit in the budget must be fixed, otherwise the savings would continue to deplete. He stressed that once the savings was gone, the state was "at the mercy" of volatile revenue sources.

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Representative Guttenberg asked about addressing the deficit no matter how volatile the economy. He thought the issue went beyond volatility.

Commissioner Hoffbeck replied that there must be an additional revenue source.

Commissioner Hoffbeck advanced to slide 29: "Requires Accurate Forecasting of Volatile Revenues." He reported that the slide showed the accuracy of the state's forecasts.

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Commissioner Hoffbeck turned to slide 30: "Leaves a Structural Deficit: S and P Global Outlook":

The negative outlook reflects our view of the large structural budget deficit in Alaska's unrestricted general fund. Currently, the state is able to finance its operating deficits by withdrawing funds from its budgetary reserves. Alaska had built up large budget reserves that thus far have shielded the state's credit quality from the degradation that the large deficits would inflict on most states' credit quality. However, the magnitude of the fiscal deficits, even with the governor's vetoes for fiscal 2017, makes the arrangement unsustainable and, unless corrected, inconsistent with the current rating. On their current trajectory, the state's deficit financial operations would eventually deplete its budget reserves. Therefore, without structural fiscal reform in the 2017 legislative session, we would likely lower the state debt ratings.

If lawmakers succeed in putting the state on what we view as a glide path to a sustainable fiscal structure, with its strong reserve balances intact, we could revise the outlook to stable.

Representative Guttenberg noted the governor had traveled back east to discuss bond ratings. He wondered about the bond rating agencies and their perspective as to the structural deficit.

Commissioner Hoffbeck responded that he had traveled to New York to meet with the agencies. He stressed that he always painted the best possible picture to the bond rating agencies, with the hope that it would reflect in a better bond rating.

Representative Guttenberg queried the response from the bond rating agency, should they understand that the state would be in a negative budget situation.

Commissioner Hoffbeck thought the question was difficult to answer. The first was that they would review testimony from hearings.

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Representative Neuman wondered whether the state was planning any bond sales.

Commissioner Hoffbeck was unaware of any bond sales scheduled, and agreed to consider that issue.

Vice-Chair Gara asked for a point of order. He noted that the co-chair had asked that questions be held to the end.

Co-Chair Foster felt that the questions were being asked, so the questions would continue.

Representative Neuman felt that Alaska would be negotiated at the time of the request.

Commissioner Hoffbeck responded that the bonds would be available for sale, but the question was the price of the bond. He remarked that the greater concern about the long-term ability to pay off the bonds, the higher the cost of debt.

Representative Neuman asked if it was a big difference at present.

Commissioner Hoffbeck replied that it made a difference.

Representative Pruitt asked about using the statement from S and P and whether it was an argument against using any structural deficit. He believed that the senate's initial goal was a "glide path." He wondered whether S and P was demanding that the state fill the deficit in the current year, or whether they were saying that there needed to be a plan to move in the direction to fill the deficit.

Commissioner Hoffbeck responded that S and P encouraged a glide path, but also demanded strong reserve balances intact.

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Representative Pruitt noted that the budget did not have a reserves draw. He remarked that there was a reduction, but not to the extent of the required reduction. He felt that most states' emergency funds were at 3.1 percent. He remarked that \$5 billion as two years' worth of deficits. He remarked that the senate's budget had a growth in the Permanent Fund. He felt that there was substantial reserves and a plan in place, so the S and P statement was merely speculation.

Commissioner Hoffbeck answered that whatever the legislature did the department would respond to and work with. The administration was hoping for a comprehensive fiscal plan.

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Representative Wilson noted that the CBR and earnings reserve were both savings accounts. She remarked that the slides did not factor in the new spring forecast from the department. She stated the difference was not bringing new revenue in.

Commissioner Hoffbeck replied that it did not matter which account the money came from. Another revenue source was needed. The structural issue needed a solution. He stated that the CBR earned less than the Permanent Fund, and the CBR would be invested much more heavily and returns would improve.

Representative Wilson noted that the spring forecast showed the deficit being filled by \$300 million to \$350 million by current prices with a conservative amount of oil in the pipeline. She remarked that the senate's decreases of approximately \$185 million combined with the forecast helped to solve the problem.

Commissioner Hoffbeck replied that the numbers were "double counted" in the spring forecast. He shared that the slides from David Teal, Director, Legislative Finance Division, had the spring forecast, but did not have the last increment of production of approximately \$50 million about the solution. He stressed that there was only a gain of \$50

million. He stated that drawing down savings made it more important to accurately forecasts the revenues.

Representative Wilson asked for exact amounts of revenue collected at present.

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Commissioner Hoffbeck continued to address slide 30. He spoke to the concept of using savings now. He felt that deficit required a long-term structural change in the amount of collected revenue.

Representative Guttenberg wondered how the change in market would affect the budget.

Commissioner Hoffbeck responded that the state was not as susceptible to the market because of the state's investment diversity.

Commissioner Hoffbeck indicated that the next slide addressed Representative Wilson's previous question. He reviewed slide 31: "Concentrates the Impacts":

- Just because the State stops funding a program or service does not mean that the needs for that service go away. However, the Federal funding match often does go away causing severe collateral damage to the programs, services and the economy.
- Cuts flow downhill. If the State stops funding a program or service the burden often falls to the local governments and then to non-profits, the private sector, or finally to the individual.
- State expenditure cuts that do not recognize on going needs are a "pass through" solution. The expense does not go away it just shifts to an ever-smaller pool of resources.
- A statewide solution, such as a broad-based sales or income tax, broadens the funding for the delivery of programs and services by capturing revenues from out of state workers and visitors.

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Vice-Chair Gara noted the drastic cuts in various agencies. He asked for explanation of a flat budget.

Commissioner Hoffbeck explained that someone was picking up costs that grow.

Vice-Chair Gara thought something would be lost. He asked the commissioner to indicate where the department would find \$300 million in cuts.

Commissioner Hoffbeck deferred to Ms. Pitney.

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Commissioner Hoffbeck scrolled to slide 32: "Destabilizes the Budget":

Provides no funding source for timely payment of close to \$1 Billion in oil and gas cashable credits. It would take 10-20 years at the statutory rate. (Results in the immediate loss of some of the smaller companies)

Provides no funding source to deal with nearly \$2 Billion in deferred maintenance or to support a level of capital spending that is necessary for a healthy construction industry in the state (results in construction job loss, business failures and higher maintenance costs in the future)

Representative Wilson wondered why maintenance was not included in the operating budget.

Commissioner Hoffbeck deferred to Ms. Pitney for information about the difference between the operating budget and capital budget. He stressed that the money would be from either budget.

Representative Wilson thought it was interesting that the maintenance was not in the line item in the operating budget.

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Representative Neuman remarked that in the previous year the legislature had approved \$430 million from the prior

year's budget out of the draw from the CBR, but the governor vetoed that appropriation. The result was now owing over \$1 billion. He queried the affect on the economy, should those vetoes not have occurred.

Commissioner Hoffbeck commented that it would have helped some of those small companies. He noted that there would be \$450 million less in the CBR.

Representative Neuman he stressed that the state would pay back the credits as written in statute. He felt that not paying the bills had a tremendous destabilizing effect on the budget.

Commissioner Hoffbeck stated that the government was not required to pay the credits. The only requirement was that the businesses could use them to offset the taxes for future productions. The state gave several options to monetize the credits earlier.

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Representative Neuman disagreed with the statement of the commissioner that the state did not have an obligation to pay the credits. He felt that the state had a moral obligation to pay those credits.

Co-Chair Seaton announced that he wanted to stay away from a debate about oil taxes. He remarked that there was a fund that received 15 percent of all the production tax when the price of oil was under \$60 per barrel. That fund paid the tax credits automatically. He stated that the legislature could appropriate money into that fund.

Commissioner Hoffbeck stressed that the state paid exactly the statutory amount. He explained that the state was paying substantially more than the statute, so there was an expectation for additional appropriation.

Representative Thompson asked that the commissioner be allowed to finish his presentation before more questions were allowed.

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Commissioner Hoffbeck discussed slide 33: "Destabilizes the Budget, Continued":

No ability to deal with increased annual PERS/TRS on behalf payments due to an FY 18 experience review of mortality, salary base and return assumptions.

(3 thousand less employees and reduced salary inflation means fewer revenues into the retirement system, likely to reduce target returns below 8 percent, and a switch to generational mortality will likely increase assumed benefit years)

Does not account for formula program growth. (Requires legislative action to permanently reduce these payments)

Does not account for health care cost escalation in excess of inflation.

Has no buffer to deal with cuts at the federal level that trickle down to the state.

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Representative Pruitt had more questions.

Co-Chair Foster wanted to complete the presentation before questions.

Commissioner Hoffbeck concluded with slide 34: "Destabilizes the Budget Era at Risk." He remarked that there was there would be a dramatic effect on the budget, should the state not meet its targets.

Representative Thompson mentioned that all week the committee had been talking about taxes. He had not heard anything about new revenues. He had heard a lot about redistributing money. He wanted to know about more revenues. He noted several projects including Conoco Phillips and Armstrong oil. He asked if the administration was working with these producers.

Commissioner Hoffbeck replied that there was not the ability to provide cash incentives, because there was no cash. He stated that there were conversations regarding different ways to incentivize the producers.

Representative Thompson wanted to hear from industries about incentivization.

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Representative Pruitt queried the different dynamics that would make the change. He wondered whether the four-year review was before or after the \$3 billion infusion. He wanted to understand why 3000 employees would create a \$200 million issue.

Commissioner Hoffbeck replied that it was above the \$200 million for the following year. He explained that the number was largely related to low investment returns over a two-year period. He remarked that not meeting the targets resulting in a greater unfunded liability.

Representative Pruitt noted that the first nine months of the current fiscal year in the Alaska Permanent Fund there was 8.96 percent growth. He wondered whether the ARM Board was in the same vicinity.

Commissioner Hoffbeck replied that the returns were similar.

Co-Chair Foster asked members and testifiers to speak into their mics.

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Representative Pruitt if they were using the same actuarial.

Commissioner Hoffbeck responded that they were not using the same actuarial. He could provide the information.

Vice-Chair Gara felt that there was a moral obligation to pay for children, but there were members in the legislature who had voted to put less money in education than was outlined in statute.

Representative Neuman called a point of order. He stated that he never said that he would not pay for children.

Vice-Chair Gara asked the amount paid in oil tax credits in the current year.

Commissioner Hoffbeck replied that the estimate was \$1 billion.

Vice-Chair Gara queried the annual credit cost, should the legislature develop a plan to pay the credits off in ten years.

Commissioner Hoffbeck responded that it would be \$100 million a year, should the credits be cut off at the end of the calendar year.

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Vice-Chair Gara asked for an explanation of why corporations pay no corporate tax, other than the sea corporations and native corporations.

Commissioner Hoffbeck responded that subchapter S, or LLCs, had income flowing to the individual owners of the company. Therefore, the tax was paid on their personal income tax rather than a corporate income tax. He stated that the state did not have a personal income tax, so there was no structure to collect at a corporate level, therefore there was no mechanism to collect the tax.

Vice-Chair Gara assumed that every business cost the state money, because there was only a \$100 license fee.

Commissioner Hoffbeck responded that he was correct.

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Representative Wilson stressed that the Higher Education Fund was used to offset the UGF, and there was no longer money to offset that the UGF. She expressed concern about the Public Employees' Retirement System (PERS) change from \$72 million to \$158 million. She noted that the Teachers Retirement System (TRS) changed from \$111 million to \$140 million. She stressed that it was an over \$300 million for UGF the following year.

Representative Wilson noted that Pennsylvania and Connecticut felt that taxes would fix the budget gap, but people and businesses moved from the states. She wondered if there was an examination of the mistakes from other states.

Commissioner Hoffbeck responded that it was difficult to track down the cause and effect of economic issues. He

stated that the Minnesota governor had raised the rates on the highest two tax brackets to fix education and deferred maintenance problem. The state was "booming." He felt that there was more at play than the tax rates.

Representative Wilson wondered whether the government was the top driver in Minnesota.

Commissioner Hoffbeck replied in the negative. He stated that Minnesota had a broad industrial base, and were one of the highest tax states in the country. He remarked that quality of life and good schools kept people in the state.

Representative Wilson wondered how Minnesota's cost of living was similar to Alaska.

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Commissioner Hoffbeck did not have the data. He stated that Alaska did have the highest cost of living in the country. He stressed that Alaska had the highest costs for providing state services, and there was no revenue stream to provide those services.

Representative Wilson thought the legislature should be careful about considering whether taxes would fix the economy. She felt that government was too expensive because it was overutilized.

Co-Chair Seaton referred to slide 28. He thought the committee had discussed destabilizing future budgets. He wondered whether the proposed cuts would destabilize the current budgets.

Commissioner Hoffbeck responded in the affirmative.

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Representative Guttenberg stated that Kansas had drastically cut taxes, and they were in a budget crisis. He stressed that every state's circumstances were different. He remarked that putting the Permanent Fund Earnings into government would not require taxes and could pay back the credits. He remarked that the problem was related to volatility and a stable economy in the state.

Commissioner Hoffbeck replied that a comprehensive solution was the goal that had to be reached.

Co-Chair Foster thanked Commissioner Hoffbeck for his presentation.

^OVERVIEW: THE ECONOMY and FISCAL POLICY:
PAT PITNEY, DIRECTOR, OMB, OFFICE OF THE GOVERNOR

[3:39:14 PM](#)

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced the PowerPoint Presentation: "State Budget and the Economy."

Co-Chair Foster asked committee members to hold questions until the end of the presentation.

Ms. Pitney addressed slides 2: "Expenditure Reductions to Date" and slide 3: "Expenditure Reductions to Date." She stated that expenditures had been cut 44 percent or \$3.5 billion since FY 13.

Representative Wilson spoke to the \$1.6 billion to \$2.5 billion in operating funds on slide 3.

Ms. Pitney replied it was from the peak budget of 2013 and included things like Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) payments. It was across from the peak in 2013 to the 2018 proposal.

Representative Wilson asked if she could look at the management plan or actuals in 2013.

Ms. Pitney replied in affirmative.

Representative Wilson asked for confirmation it was the management plan.

Ms. Pitney replied in affirmative.

Representative Pruitt asked if there was a change from UGF to DGF included.

Ms. Pitney replied that slide 3 was the only table that showed UGF.

Representative Pruitt asked if some of the reduction had been moved from UGF to DGF.

Ms. Pitney answered that a small amount - but it was not significant.

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Representative Pruitt asked for a follow up on the information.

Ms. Pitney turned to slide 4: "Expenditure Reductions to Date." The chart showed a percentage reduction in the current budget by agency. The colors on the left showed reductions from FY 15 to FY 16, FY 16 to FY 17, and FY 17 to FY 18. The amount was much smaller in the FY 18 budget; once the reductions had been taken, they were not available to cut in the following year. The Department of Commerce, Community and Economic Development (DCCED) was down to \$20 million.

Ms. Pitney advanced to slide 5: "Expenditure Reductions to Date: Closed State Facilities" that showed a map of Alaska and demonstrated the impact of the budget cuts throughout the state.

Ms. Pitney relayed that her colleague would address per capita spending on slide 6.

BRIAN FECHTER, POLICY ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, addressed slide 6: "Per Capita Spending: Factors Influencing Alaska's Per Capita Spending":

- PFDs
- County Programs
- Unique Alaskan Programs
- Health Insurance
- Education
- Fuel/Energy
- Oil and Gas Credits
- Travel

Mr. Fechter elaborated that Alaska was the only state that paid a dividend to residents.

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Vice-Chair Gara asked about slide 6. He was trying to determine what it would look like without the PFD. He wondered whether the \$1022 was reflected in the chart.

Mr. Fechter replied in the affirmative. He turned to slide 7: "Right Size of Government":

- After adjusting for Alaska-specific conditions, per-capita spending is within 7.2 percent of the national average.
- Alaska excels at leveraging federal dollars. Dollars not serving as match typically reside in life/safety functions such as public safety, road maintenance, corrections, etc.
- Further reductions pose a challenge. Many cost drivers represent valuable programs.
- Need smart reform to bend the cost curve.
 - o Health Care
 - o Education
 - o Energy Efficiency

Ms. Pitney moved to slide 8: "Senate FY2018 Reductions compared to GOV Amend." The slide provided a comparison of the governor's proposed budget and the proposed Senate reductions. The K-12 budget was \$71 million below the governor's proposal. She listed other differences. The difference was a total of \$202 million less in the Senate budget. It was a 13 percent reduction to DEED, 67 percent to DOT, and other.

[3:55:04 PM](#)

Vice-Chair Gara referred to slide 8. He spoke to the \$39 million cut to Department of Health and Social Services (DHSS). He asked if it included the DHSS cut.

Ms. Pitney replied it was inclusive. She detailed that the cuts were largely made up of the four agencies.

Vice-Chair Gara pointed to agency operating. He asked about the number used.

Ms. Pitney responded that she had been asked to show the Senate version of the reductions.

Representative Wilson asked if it showed management plan or actuals.

Ms. Pitney replied it was the management plan.

Representative Wilson asked if it was all funds.

Ms. Pitney replied it was only UGF.

Ms. Pitney addressed slide 9: "Senate Assigned Personnel Reductions Sec. 4 Page 54-56." The administration viewed the concept as a year-end emergency situation only.

Co-Chair Seaton asked for clarification - OMB intended to leave them as the legislature intended.

Ms. Pitney answered that when there was flexibility language it was viewed as a year-end emergency fund.

[4:00:25 PM](#)

Ms. Pitney continued to address personnel reductions on slide 9. She explained there was discretion, but it was hard to determine where to take the cuts.

Representative Wilson believed the legislature could not tell the University where to take the cuts.

Ms. Pitney replied that the University had a different construct than the rest of the executive branch.

Representative Wilson asked whether PCNs were removed.

Ms. Pitney answered that it was a dollar amount.

Representative Wilson asked about the allocation and whether the amount was in it.

Ms. Pitney answered that it was within the appropriation.

[4:03:13 PM](#)

Representative Wilson asked if there was room for the departments to decide how to use the money.

Co-Chair Seaton explained that the discretion was limited to the appropriation of personal services.

Ms. Pitney, in response to a question from Representative Ortiz, stated that there was no clarification to assign the money to something else.

Representative Ortiz clarified that the budget had not increased.

Ms. Pitney agreed.

[4:05:20 PM](#)

Ms. Pitney detailed slide 10: "Spend Not accounted For in UGF senate version FY2018." She stated that the list represented what was not accounted for in the senate version.

In response to a question from Co-Chair Seaton Ms. Pitney answered that the administration anticipated the supplemental request. She noted that reforms had been taken advantage of as well.

Representative Wilson asked Ms. Pitney to compare her information with David Teal's.

[4:11:24 PM](#)

Ms. Pitney moved to slide 11: "A Possible \$750M Reduction Scenario An additional 17 percent reduction." There would be 100 percent reduction in PERS/TRS, but it did not count the \$300 million noted in the prior slide. The agency operations would be operating at 2005 or 2011 totals.

Representative Wilson asked if she used the revenue forecast for comparisons of if she had used the FY 15 management plan numbers.

Ms. Pitney replied that the slide represented a \$750 million reduction to the budget.

[4:14:59 PM](#)

Representative Wilson wanted to clarify that the state was not looking at any additional revenues.

Ms. Pitney responded, "That is correct."

Co-Chair Seaton added that the slide represented expenditures.

Ms. Pitney agreed.

[4:15:55 PM](#)

Ms. Pitney continued to slide 12: "Additional Expenditure Reduction Impact Scenarios: Current Level of Direct Payment to Municipalities." She clarified that the amounts represented the checks written to municipalities. She read the numbers on the slide.

Ms. Pitney turned to slide 13: "Additional Expenditure Reduction Impact Scenarios: Reduction in Direct Payment to Municipalities." She explained that the slide reflected the cuts and how they would impact the municipalities.

[4:19:12 PM](#)

Vice-Chair Gara asked how the Mat-Su received the most money in the state.

Ms. Pitney indicated there was a formula error, and agreed to provide that information.

Representative Wilson surmised that there was actually a cut of \$1.1 billion. She felt that there should be a \$750 million difference between slides 12 and 13.

Ms. Pitney shared there were errors, but there was a typo in the Mat-Su.

Representative Wilson surmised that the result should be \$750 million.

Ms. Pitney replied that there was only \$450 million of the \$750 million that was represented in the chart.

Ms. Pitney moved to slide 14: "PERS/TRS Estimates Variable, Growth Exceeds Inflation." She explained the slide.

Ms. Pitney slide 15: "Additional Expenditure Reduction Impact Scenarios." She shared that the chart showed the property tax increase at the community level.

4:25:42 PM

Ms. Pitney advanced to slide 16: "Reduction Impact Scenarios Medicaid: Direct Medicaid Payments to Providers." She remarked that the second column removed the \$50 million in UGF, and its impact on the communities.

Ms. Pitney scrolled to slide 17: "Additional Expenditure Reduction Impact Scenarios: Direct Payment to Recipient Programs":

- Housing Programs
- AK Temporary Assistance
- Child Care Benefits
- Community Developmental Disability Grants
- Behavioral Health
Prevention/Intervention/Treatment/Recovery Grants
- Adult Public Assistance
- General Relief Assistance
- Food Stamps
- Pioneer Home
- Senior Benefits
- WIC
- Foster Care
- Subsidized Adoptions
- Energy Assistance

Ms. Pitney turned to slide 18: " Additional Expenditure Reduction Impact Scenarios: State Facilities Operating in Communities":

- Prisons
- Courts
- Pioneer Homes
- DMV
- Public Health Centers
- DOT Maintenance Stations
- Child Support Offices
- University Campuses
- State Parks and Campgrounds
- Job Centers
- Trooper Posts

- Juvenile Justice
- Ferry Terminals
- Airports

Ms. Pitney continued to slide 19: " Additional Expenditure Reduction Impact Scenarios: Known Needs":

- Opioid Crisis
- Behavioral Health and Substance Abuse Treatment
- Capital Project Funding
- Deferred Maintenance
- Oil and Gas Credit Liability
- Health Care Cost Due to Aging Population
- Increases for Population Growth

Ms. Pitney suggested there were things that could not be addressed in the form of a capital budget. //. She read the list.

[4:29:29 PM](#)

Ms. Pitney slide 20: "Additional Expenditure Reduction Impact Scenarios":

- Capital Program Spending is already at an unsustainably low level and will likely need to be increased in the very near future.
- Agency Operations Spending has already been reduced 28 percent. Although additional reductions are planned through transitioning to shared services and consolidating program delivery, there is little additional savings that can be achieved without the reduction or elimination of the programs and services that these expenditures support.
- Indirect Expenditures are currently being reviewed for modification or elimination. The largest of which is the oil and gas tax credit program, which is already constrained to the statutory annual payout formula but has significant accrued liability that eventually will need to be paid through direct payment or reduced revenues.

- Direct Payments to municipalities and to program participants represent over 46 percent of the total state budget. This represents cash out the door to support programs and services statewide.

Ms. Pitney scrolled to slide 21: "Additional Expenditure Reduction Impact Scenarios Continued":

- Just because the State stops funding a program or service doesn't mean that the needs for that service go away. However, the Federal funding match often does go away causing severe collateral damage to the programs, services and the economy.
- Cuts flow downhill. If the State stops funding a program or service the burden often falls to the local governments and then to non-profits, the private sector, or finally to the individual.
- State expenditure cuts that do not recognize on going needs are a "pass through" solution. The expense does not go away it just shifts to an ever-smaller pool of resources.
- A statewide solution, such as a broad-based sales or income tax, broadens the funding for the delivery of programs and services by capturing revenues from out of state workers and visitors.

Ms. Pitney did not go through the last slide, as it had been discussed in Commissioner Hoffbeck's presentation.

[4:31:51 PM](#)

Representative Pruitt felt that there were other states that had unique programs or fisheries costs. He wondered whether there was an examination of other states compared to Alaska.

Mr. Fechter answered that much of the administration's approach was using a "basket of states" approach. He stated that there was an examination of other states that have some significant fisheries economies. He remarked that those states were large, like Alaska, but Alaska had a smaller population. He stated that there would be a much

deeper analysis in determining the uniqueness of each state.

[4:34:37 PM](#)

Representative Pruitt felt that it was not appropriate to compare to other states, if the other states did not have the same applied metrics.

Co-Chair Seaton asked if Representative Pruitt was suggesting that every state should be looked at in detail, or that there should be no examination of other states.

Representative Pruitt shared that there were other states with expensive unique programs. He wanted to compare the unique programs with other state's unique programs.

Ms. Pitney relayed that the precision of the report was not the intent of its use. She stressed that the report provided context.

Vice-Chair Gara remarked that there were many recurring cuts. He looked at the cuts to Medicaid, and did not feel that those cuts would reduce the budget.

Ms. Pitney replied that \$151 million was required to cover the budget under the senate version, \$58 million plus \$15 million under the governor's version, and \$17 million.

[4:40:25 PM](#)

Vice-Chair Gara asked what cuts by the Senate would show up as a supplemental budget in the following year. He wondered whether Medicaid would be in the supplemental budget.

Ms. Pitney replied in the affirmative. She stated that Medicaid; Alaska Marine Highway System (AMHS); K-12 Funding; and PERS and TRS would need funding in future budgets. She stressed that the two Medicaid items would appear in the supplemental budget.

Vice-Chair Gara wondered whether the added items would look like a budget increase, even though it would not be a budget increase.

Ms. Pitney responded in the affirmative.

Co-Chair Seaton stated that Section 4 in the senate bill could be taken against other line items.

Representative Wilson referred to slide 12. She surmised that the slide had incorrect totals.

Ms. Pitney indicated she would have the correct version in 15 minutes.

Representative Wilson gave kudos to the governor who listed the line items with the amounts. She wondered why DGF and UGF would be included in the per capita costs for unique programs.

Mr. Fechter all state source dollars must be used in comparing with other states.

[4:45:12 PM](#)

Representative Wilson assumed that PCE would not be utilized without the fund.

Ms. Pitney responded that the purpose of the report was to review the spending.

Representative Wilson did not feel that the per capita amounts were not fair to assess with the special circumstances.

Ms. Pitney responded that it was the amount of spend on a per capita basis, but did not address revenue sources.

Representative Wilson wondered why the management numbers would be used as opposed to actuals if they were available.

Ms. Pitney replied that it was intended to have consistency.

Representative Wilson remarked that she appreciated the notion of consistency.

[4:50:52 PM](#)

AT EASE

[4:50:56 PM](#)

RECONVENED

Representative Ortiz looked at the right size of government slide. He noted that the Fisheries showed a cost of \$165.04 per capita. He wondered whether that factored in before or after the commercial fish landing taxes, entry commission fees, and other licenses.

Mr. Fechter answered that the figure would include other fund sources.

Representative Ortiz clarified that the cost per citizen would be a lesser number.

Mr. Fechter agreed.

[4:52:42 PM](#)

AT EASE

[4:55:18 PM](#)

RECONVENED

Co-Chair Foster handed the gavel to Representative Guttenberg.

#SB28

SENATE BILL NO. 28

"An Act relating to the general grant land entitlement for the Petersburg Borough; and providing for an effective date."

[4:55:22 PM](#)

SENATOR BERT STEDMAN, SPONSOR, introduced himself. He was going to turn it over to his trusted aide.

REPRESENTATIVE JONATHAN KREISS-TOMKINS, introduced himself.

MELISSA KOOKESH, STAFF, SENATOR BERT STEDMAN, introduced herself. She read the sponsor statement:

Senate Bill 28 will set the total general land entitlement for the Petersburg Borough (Borough) at 14,666 acres. This is an increase of 12,770 acres from its current level of entitlement, and would bring the Borough's land entitlement to a level similar to the other organized boroughs in the state. SB 28 will

address the long-term economic sustainability of a recently formed borough.

When the Borough formed in 2013, it received a general land grant entitlement from the state of 1,896 acres. Of the 1,896 acres, 457.47 acres had already been given to the City of Petersburg. A substantial part of the 457.47 acres is restricted to public, charitable, or recreational use.

After deducting the 457.47 acres that went to the City, the Borough's land entitlement is 1,438.53 acres which is an area roughly 1/3rd the size of the Anchorage International Airport. 1,438.53 acres simply does not provide enough land to support economic development such as rock and sand material sites for roads, airports, waterfront land for tourism development, or residential homes.

The Borough would select the additional 12,770 acres from seven different areas around the Borough. All selections would be made from vacant, unappropriated, and unreserved state lands. No selections would interfere with existing State, University, or Alaska Mental Health Trust lands, including the Southeast State Forest, or private ownership.

The Petersburg Borough recognizes we are in difficult budget times. An increased land base is critical for the Petersburg Borough to become more self-sufficient.

[4:59:55 PM](#)

Representative Wilson asked who currently owned the land.

Senator Stedman responded that "the state" owned the land.

Representative Wilson asked if the state was selling the land to the borough.

Senator Stedman explained that during the creation of the Statehood Act, it was decided that the state should be split into boroughs. He remarked that some of the larger areas were immediately "borough-ized", and other areas had not officially become boroughs in the state. He shared that the legislature had requested more flexibility in creating the boroughs, because initially Petersburg and Wrangell

were one borough. He shared that the constraints had relaxed ten years prior, allowing the communities to adjust how they felt the boundaries should be drawn. He remarked that the subject of the legislation was the expansion of the Petersburg expansion. He remarked that in trying to meet the obligation of the constitution, no boroughs had been required to purchase the land from the state. He stressed that all boroughs were treated the same. He understood that there were some areas that would not be capable of supporting a borough. He felt that the proposed expansion would support the borough. He surmised that the communities would not create boroughs, if they were required to purchase the land.

[5:02:29 PM](#)

Representative Wilson surmised that the bill would allow for the creation of "Petersburg services.

Senator Stedman replied that Petersburg had platting authority. He stated that the Petersburg Borough would control the development through their zoning ordinances, to facilitate commercial or recreation development. He remarked that there was a parcel that had previously held a post office.

Representative Wilson wondered whether the bill followed the model that granted other boroughs a certain number of acres that would be privatized, or whether the acreage fit the need in the specific area.

Senator Stedman replied that the bill aligned the Petersburg Borough with other boroughs throughout the state. He shared that most of the land was federal forest. He stressed that the borough size might be large, but there was very little private property within the federal forest.

[5:04:58 PM](#)

Representative Kawasaki asked whether it was a second-class borough.

Senator Stedman responded that it was a full borough.

Representative Kawasaki wondered whether the borough originally anticipating that they would ask for a future larger entitlement.

Senator Stedman deferred to Ms. Cabrera.

Representative Kawasaki asked whether there was a requirement that the land entitlements be contiguous or within a certain area centered on the current Petersburg Borough. He felt that there were selections that were far away from the actual core area.

Senator Stedman replied that the selections were around Petersburg. He stressed that there was no community between Juneau and Petersburg, and the nearest southern community was Wrangell. He pointed out that much of the unselected space was the Juneau Borough.

Representative Kawasaki noted that the Haines Borough had 3200 acres; the Fairbanks North Star Borough had 122,000 acres. He wondered whether 15,000 acres was a manageable size.

Senator Stedman responded that it was the goal to have the entire Southeast region divided into boroughs.

Representative Kawasaki hoped that the land become contiguous in the boroughs. He wondered how Alaska Mental Health Trust Authority (AMHTA) land, tribal land, and federal land would be incorporated in the borough.

Senator Stedman replied that it was ideal to have contiguous borough boundaries.

Representative Pruitt wondered how the initial entitlement amount was determined.

Representative Kreiss-Tompkins thanked the committee and indicated his support of the bill. He had to return to House State Affairs.

[5:11:46 PM](#)

LIZ CABRERA, COMMUNITY AND ECONOMIC DEVELOPMENT, PETERSBERG, introduced herself.

Representative Pruitt wondered how the number of 12,770 acres was determined. He understood the initial formula.

Ms. Cabrera responded that the number was a simple addition. She took the average of acreage of the existing boroughs and their selection process.

Representative Pruitt asked if she was looking for total acreage. He wondered if the size of the borough or a parody in sheer acreage.

Ms. Cabrera used Sitka as an example which was a ratio and the average of the ratio.

Representative Guttenberg asked if Marty Parson's was online. He wondered about the original allocations and the constitutional allocations.

[5:15:19 PM](#)

MARTY PARSONS, DEPUTY DIRECTOR - MINING, LAND, AND WATER DIVISION, DEPARTMENT OF NATURAL RESOURCES, ANCHORAGE (via teleconference), responded that the legislature would identify the number of acres and provide the number to the borough for selection. He stated that it had been changed under AS 29.65.020, a formula was generated to take 10 percent of the vacant unappropriated unreserved land within the borough.

Representative Wilson wondered whether there was a requirement to put into private land.

Mr. Parson responded that once the land was conveyed to the borough, the land use was at the borough's discretion.

Representative Wilson wondered whether the borough determined the private investment.

Mr. Parsons replied that there was not requirement to convey the land into private ownership.

Representative Kawasaki wondered whether the state could keep the land.

Mr. Parsons informed the committee that the statute required the state to show that the land was of significance importance to the state, before it would convey it to the borough.

Representative Kawasaki wondered there was an allowance for boroughs to pick their land.

Mr. Parsons answered that there was not a restriction on making the selections contiguous.

5:20:03 PM

Representative Ortiz wondered whether other boroughs in Southeast had a home rule status.

Ms. Cabrera indicated Wrangell was home rule status. She did not know about Ketchikan.

Representative Ortiz queried the differences between the types of boroughs.

Ms. Cabrera replied that home rule boroughs could do anything that was not prohibited by state law. There was a charter to establish the borough's powers and authorities.

Representative Wilson thought Ms. Cabrera had more to say.

Ms. Cabrera indicated she did. She read a prepared statement:

Co-Chair Foster and members of the committee. Thank you for the opportunity to address you today regarding SB 28 an act related to the general land entitlement of the Petersburg Borough.

SB 28 sets the general land entitlement of Alaska's newest borough, Petersburg, to be comparable to the land entitlement received by all other boroughs in the state. An amount equal to approximately .79 percent of a borough's land mass, which in Petersburg's case is 14,666 acres.

For those of you who are unfamiliar with our community, the Petersburg Borough is located in central Southeast Alaska and encompasses an area of 3,800 square miles of land and sea. The borough's population center is located on the northern tip of Mitkof Island, which is home to a diverse and prolific commercial fishing fleet and three major seafood-processing facilities. In 2013, the residents of Petersburg voted to form a borough - for a number of

reasons, including having a greater say on land use decisions in our surrounding area, having an opportunity to Increase our municipal land base, and many also felt it was Important for all area residents to support our school system through local taxes.

About 12 months after borough formation, Petersburg received a general land grant entitlement certification from the state indicating we were entitled to 1,896 acres under AS 29.65.010. However, this amount was reduced by the 457 .47 acres already received by the City of Petersburg, even though certain tracts of the City's 457.47 acres is restricted from development and only available for public, charitable, or recreational use. After deducting the 457.47 acres, the Borough's land entitlement was 1,438.53 acres. To put this into context, this is approximately an area roughly 1/3rd the size of the Anchorage International Airport.

In making this calculation, DNR uses a statutory formula - a municipality is entitled to 10 percent of VUU land within its boundaries.

The lands available for selection are designated as VUU or "vacant, unappropriated and unreserved" land by the State of Alaska. These lands are either "unclassified" or classified as "agricultural, grazing, materials, public recreation, settlement, and resource management" but for the most part no development has occurred on any of the VUU lands.

You may wonder why we received such a small land entitlement to begin with. The majority of land within the borough, over 96 percent, is managed by the federal government as the Tongass National Forest. Of the non-federal lands within the borough, 1.73 percent is owned by the Goldbelt Corporation, 1.34 percent by the State of Alaska, and .4 percent by the Alaska Mental Health Trust and University of Alaska. Only .3 percent is in private ownership and a mere .04 percent is owned by the municipality. When DNR applied the land entitlement formula to the Petersburg Borough, only a very small amount of land remained in VUU status.

As we began to evaluate our potential selection, we realized that our entitlement was not adequate for what we were hoping to accomplish and that other boroughs also received small land entitlements initially and then were able to increase these through the legislature. The most recent example was in 2010 when both Wrangell and Haines received additional acreage, and in the late 1990's the Lake and Peninsula Borough and Yakutat Borough also had their land entitlement set through legislation.

Why is this Important to Petersburg specifically? As I mentioned previously, just over 96 percent of our land base is federally managed and of our non-federal lands the major landholder are Goldbelt Corporation and the State of Alaska. In short, while the borough itself is relatively large, the majority of land is not and will never be Included In the local tax base and most is not available to generate economic return for our residents or the State of Alaska.

The Petersburg Borough would like the opportunity to move some these lands into private ownership and add them to our tax base as residential or commercial developments. We would like the opportunity to secure new sources of rock for construction and maintenance of our roads and other projects. In general, we would like the opportunity to be more economically self-sufficient. 1,400 acres simply does not provide sufficient developable land to support these goals.

In our discussions with the Department of Natural Resources, they explained that the agency generally does not voice support for this type of legislation, but neither does the agency oppose Petersburg's request. We provided a general outline of the lands we would select under SB 28 and DNR did not express any concerns about these potential selections.

Lastly, the members of this committee know better than most that these are difficult times. In our own small way, we, in Petersburg, want to be part of the solution, not a casualty of crisis. An Increased land base is a key component to the long-term sustainability of our municipality.

We respectfully ask for your support to move SB 28 out of Senate Resources.

Thank you for the opportunity to speak to you today and I would be happy to answer any questions you may have.

Representative Wilson indicated that by becoming a borough they would be able to provide local police and other community programs.

Representative Pruitt wondered if the money came directly to Petersburg.

Ms. Cabrera replied that it was a payment that the federal government gave to the borough. The payment was received directly, and was calculated in a formula.

Acting Chair Guttenberg reported that amendments for the bill were due by 5:00 p.m., Wednesday, May 10, 2017. He reviewed the agenda for the following meeting.

SB 28 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

5:27:31 PM

The meeting was adjourned at 5:27 p.m.