

JOINT MEETING  
HOUSE RESOURCES STANDING COMMITTEE  
HOUSE FINANCE COMMITTEE  
February 22, 2018  
1:32 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:32 p.m.

HOUSE FINANCE COMMITTEE 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 Mark Neuman - Alternate  
Representative Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Tammie Wilson

HOUSE FINANCE COMMITTEE MEMBERS ABSENT

Representative Cathy Tilton

HOUSE RESOURCES COMMITTEE MEMBERS PRESENT

Representative Andy Josephson  
Representative Garan Tarr  
Representative John Lincoln  
Representative Harriet Drummond  
Representative Justin Parish  
Representative Chris Birch  
Representative DeLena Johnson  
Representative George Rauscher  
Representative David Talerico

HOUSE RESOURCES COMMITTEE MEMBERS ABSENT

none

### ALSO PRESENT

Senator Bert Stedman, Legislative Budget and Audit Committee Chair; Dr. Wenran Jiang, PHD, Consultant, Legislative Budget and Audit; April Wilkerson, Director, Division of Administrative Services, Department of Corrections; David Teal, Director, Legislative Finance Division; Joan Brown, Staff, Representative Paul Seaton; Senator Click Bishop; Representative Bryce Edgmon; Senator Tom Begich.

### PRESENT VIA TELECONFERENCE

Laura Brooks, Division Operations Manager, Health and Rehabilitation Services, Department of Corrections.

### SUMMARY

HB 285      APPROP: MENTAL HEALTH BUDGET

HB 285 was SCHEDULED but not HEARD.

HB 286      APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 286 was SCHEDULED but not HEARD.

HB 321      APPROP: SUPPLEMENTAL OP.; FUND; AMENDING

CSHB 321(FIN) was REPORTED out of committee with four "do pass" recommendations, three "no recommendation" recommendations, and four "amend" recommendations.

JOINT PRESENTATION WITH THE HOUSE RESOURCES COMMITTEE  
PRESENTATION: "CHINA, LNG, AND THE ALASKA GAS PIPELINE" BY  
DR. WENRAN JIANG, PH.D.

Co-Chair Seaton reviewed the agenda for the day. He indicated that today's meeting was a joint meeting with the House Resources Committee.

Representative Tarr introduced the members from House Resources.

^JOINT PRESENTATION WITH THE HOUSE RESOURCES COMMITTEE

PRESENTATION: "CHINA, LNG, AND THE ALASKA GAS PIPELINE" BY  
DR. WENRAN JIANG, PH.D.

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SENATOR BERT STEDMAN, LEGISLATIVE BUDGET AND AUDIT COMMITTEE CHAIR, introduced the presenter, Dr. Wenran Jiang. As a consultant, Mr. Jiang would be helping the legislature in understanding the energy economics of the Pacific Basin and the state's potential decision dealing with the Liquid Natural Gas (LNG) gasline with Alaska Gasline Development Corporation (AGDC). He asked members to hold their questions until the end of the presentation. He indicated Mr. Jiang would be available for questions for the following two days if the meeting ran short on time. He spoke of the building block process of providing education for the legislature in order to make an informed decision.

Co-Chair Seaton recognized Speaker Edgmon was in the audience.

DR. WENRAN JIANG, PHD, CONSULTANT, LEGISLATIVE BUDGET AND AUDIT, thanked the committee for the opportunity to speak and introduced the PowerPoint presentation: "China, LNG, and the Alaska Gas Pipeline."

Dr. Jiang began with slide 2: "Self Introduction." He was a first generation Canadian. He was born in China and left in 1980 after completing his undergraduate degree. He studied in Japan and pursued his graduate studies in the United States. Eventually he completed his PhD in Canada and started his tenured position as a political economy professor and a China expert at the University of Alberta from 1993 to July 2017 at which time he took early retirement from his tenure. He wanted to focus on the kind of work he was currently doing. In recent years he had been on leave working for different organizations, federal provincial governments, to advise on the engagement with China from Canada. Therefore, he was focusing more on advisory work.

Dr. Jiang had been tracking as an academic of China's overseas investment of Chinese behavior of foreign investment in Africa, Latin America, the Middle East, and North America. He started looking at resources back in early to mid 2000, 2004, and 2005 moving to further Chinese large investments in North America in 2009. Back in 2004 or

2003, the then Canadian federal government's Department of Foreign Affairs and International Trade, now called Global Affairs Canada, approached him as an academic member to be a part of the China strategic working group with the federal government to identify priorities. He proposed a series of measures; one of them was to hold an annual China-Canada energy and environment dialogue to engage China. He had been tasked with doing the annual conference since 2004. Up until the present he had organized 13 conferences.

Dr. Jiang reported that in 2005, the energy council, which Senator Stedman was a representative for the State of Alaska, invited him to be a special advisor on China on a voluntary basis, which he gladly accepted. At that time, China was seen as a rising competitor of the United States in terms of energy supply and security. Currently, the picture had reversed. The United States was no longer talking about security and independence because they were there. The Chinese had reversed position from about 35 percent foreign dependence on oil to about 70 percent foreign dependence on oil and close to 40 percent gas dependence on foreign oil. He had witnessed the 10-year period and advised the energy council. He had taken the executives representing about 13 US energy producing states, 3 energy producing provinces, and a legislative group to China to engage with Chinese leadership in 2007. His experience led to his work with the provincial federal government of Canada. He had also been second to the Department of Energy at the Alberta provincial level to further engage with the Chinese, to continue to organize the annual conference, to speak, and to brief the American and Canadian State and Provincial legislatures on China's energy security policy, demand curves, and investment behaviors.

Dr. Jiang was the mission advisor to Natural Resources Canada's Minister's China visit. He also organized the 13th annual Energy Environment Forum in November 2017. He continued to provide information regarding his professional experience.

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Dr. Jiang advanced to the photo on slide 3: "Meeting with Canadian PM Justin Trudeau, Shanghai 2016." He indicated he facilitated a major clean energy deal between Canada and

Chinese entities. Dr. Jiang explained the pictures on slides 4 and 5.

Dr. Jiang turned to slide 6 and 7: "Overview." He would provide a Macro level overview. He had been brought in by Senator Stedman to provide a perspective on energy as it related to China, particularly as it related to the AKLNG project. He would be informing the committee of the Chinese demand and LNG issues. Part II of his presentation would include where Alaska would fit in terms of potential LNG development. In the third part of his overview, he would provide specific project-related information and analysis about the Chinese parties involved with the signing of the memorandum of understanding between 5 parties: The State of Alaska, AGDC, the Sinopec Group, the Bank of China, and the China Investment Corporation. He had interacted with all of the entities. He would end his presentation with some concluding remarks.

Dr. Jiang skipped to slide 9: "China's Growth." The slide showed some indicators that, by about 10 years prior and after joining the World Trade Organization (WTO) in early 2000, came to scale. Everything was moving up with positive indicators other than the employment rate going down. It was also the time when China began to heavily implement a "go out" strategy - going abroad to continue a similar drive. By 2005, 2007, and 2008 China was formidable. The economy had been growing at about 10 to 12 percent annually. He mentioned the miracle story about China beginning to heavily sustain its drive by investing overseas in the developing world in places such as Southeast Asia, Africa, Latin America, and, later, in North America.

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Dr. Jiang continued to slide 10: "What's next after 50 years of remarkable growth in China?" He highlighted the historical 50-year time span from 1964-2014 on the graph. It showed China as the leader of the major economies. He furthered that 1/5 of the world's population had never grown the economy as fast or sustained it as long as China. He indicated that the chart showed an average 50-year compounded growth rate of 7.5 percent.

Dr. Jiang turned to slide 11: "China's GDP Grow was 6.9 percent in 2015: Slowest in 25 Years." In recent years the

speculation had to do with where the drive went in China as it was slowing down. He posed the question if China would sustain itself forever at such an impressive rate. The percentage of growth was going down. However, it was only part of the story.

Dr. Jiang discussed the graph on slide 12: "But China's Total GDP Value Keeps Getting Bigger." He explained that while the percentage of growth had gone down in recent years, the volume of the gross domestic product (GDP) had added up substantially. He conveyed that it was because the base of the economy was so large. Currently, China was growing at a rate of 6.5 percent. It added more GDP volumes to the Chinese economy than in 2007 when China was growing at 12 percent. Therefore, implications for the Chinese use of everything from energy to resources reflected an upward track which could be seen on the slide.

Dr. Jiang scrolled to slide 13: "Top three countries by economic dominance." By 2030 China was looking at having 80 percent more economic capacity than the United States. India followed the United States. He suggested that there would be a very rapid transition of the world's economic order. The question was where China was going with its economy.

Dr. Jiang continued to a summary on slide 14: "Modernization paradigm on steroids." He called the impressive numbers from the previous slide the modernization paradigm on steroids. China had chosen to have a particular state driven paradigm that was heavily dependent on capital inputs and labor inputs with low wages, focused on heavy and manufacturing industries. China was the largest producer in the world of most things. It's industry sector was larger than the United States. China had a deepening integration with the world economy welcoming whomever came. He would revisit this point because of the U.S. and China trade deficit. He continued that U.S. and European companies voluntarily moved their factory production base to China for the purpose of exports. He indicated that China was earning very little return. As a result, China was not only producing for itself but for the rest of the world resulting in a huge demand for energy and resources. He asserted that it came with a cost. There was severe damage to the environment and a major contribution to global warming. Overall, the Chinese was seen as pursuing GDP growth at any cost.

Dr. Jiang discussed slide 15: "Giant Appetite." He pointed to the resources, major commodities, that were highly consumed around the world.

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Dr. Jiang turned to slide 16: "Primary energy demand, 2035 (MTOE)." He emphasized that China was becoming the largest overall primary energy user in the world, larger than the U.S.

Dr. Jiang scrolled to slide 17: "China surpasses the United States as the world's top energy consumer." He pointed to the red bars on the slide which increased over 10 years, eventually surpassing the U.S. and never looking back.

Dr. Jiang advanced to slide 18: "China's oil production and consumption, 1993-2016." In looking at the oil sector, from 1993 the Chinese began to have an import situation in which currently it had a 70 percent import dependence. He reported that by 2040 China was projected to have an 80 percent import dependency. China was very concerned about energy security. In terms of imports, the U.S. used significantly more oil than China. However, China had overtaken the U.S. as the largest oil importer in the world. It ended up growing because the U.S. was producing more and importing less.

Dr. Jiang moved to slide 19: "China is now the world's largest net importer of petroleum and other liquid fuels." Looking into the future to 2040, he believed China would likely consume twice as much energy as the U.S. even given the slow pace.

Dr. Jiang discussed slide 20: "China's Energy Use Could be able Level by 2040." China would be the largest consumer, twice as much as the US.

Dr. Jiang turned to slide 21: "Historical and Projected Population and Urbanization Trends in China." He posed the question about what drove the historical trend. He wondered why energy consumption was growing so much.

Dr. Jiang moved to slide 22: "Urbanization and China's emerging middle class." China had nearly 1.4 billion people, 4 times the population of the U.S. He reported that

in the early 80s barely 20 to 30 percent of China was urbanized. Presently just over half of China was urbanized, which meant that well over 600 million people were yet to be urbanized. He asserted that as the Chinese urbanized, they consumed more energy. They became richer, joining the middle class. They wanted cars, apartments, appliances. the poor population from 1985 were currently in the middle to upper classes. He indicated that by 2025 most Chinese would be in the middle class. He reported that around 250 million people in the U.S. were in the middle class and their consumption was very high. He furthered that nearly one-third of the world's emerging middle class was in China and growing. Other countries such as India followed. The emerging middle class had profound implications as a driver of energy use.

Dr. Jiang continued to slide 23: "China Natural Gas Production and Consumption." In terms of natural gas and the AKLNG project, all major agencies projected that China would need to increase its import of LNG significantly. China was a major large producer and its domestic reserve was huge. However, it could not keep up with demand.

Dr. Jiang explained slide 24: "China Leads the growth in projected global natural gas consumption." He relayed that the latest number from the U.S. EIA reflected that China was the leader in growth in projected global natural gas consumption. The numbers were reflected in the chart.

Dr. Jiang detailed slide 25: "China natural gas supply in IE02017 Reference case (2010-40)." He explained that breaking down what kind of gas the Chinese were producing, what kind of gas they would be importing, and from what locations, would provide a larger picture.

Dr. Jiang advanced to slide 26: "Energy Consumption per capita versus the GNP per capita." He used a laser pointer drawing attention to the right side of the chart noting that the U.S. and Canada - rich countries - consumed a significantly larger amount of energy. The United States' counterpart was much more efficient and rich. They used less energy but were high on the consumption list. He used the laser point to draw attention to China on the chart. He noted that India was not on the slide at all. The classic trend was going in a direction such that China sold more cars in the U.S. China out-paced everyone else. A traditional trajectory, with no paradigm shift, would not

be sustainable. He suggested thinking about China consuming one-quarter of the United States' total energy on a per-capita basis. China would need close to 100 million barrels of oil per day. China's demand was not at this level presently but was on a trajectory. USA and Canada would use more energy.

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Dr. Jiang turned to slide 27: "China's Energy Consumption Composition 2007." He reported that China's mix of energy use was on the slide. China's oil consumption was a relatively small portion versus coal.

Dr. Jiang discussed the pie charts on slide 28, 29, and 30 showing the various consumption mixes. Last year 64 percent of China's total energy came from the burning of coal. He highlighted the yellow bar on slide 28 reflecting that of China's total use of energy, only 6 percent came from oil. He spoke of china's energy mix in comparison with the global energy consumption was drastically different. The global consumption of natural gas 24 percent versus 30 percent coal. He suggested going between the pie charts on slides 28, 29, and 30 to see the comparison between the world, the U.S., and China.

Dr. Jiang detailed slide 31: "China accounts for nearly three-quarters of the world increase in coal-fired generation." China might need more gas because it had been driving industrialization by primarily coal-powered generation plants. China had made great efficiency moves but it continued to use a significant coal burning energy creating additional pollution. The world was looking at China as the country using the most coal.

Dr. Jiang moved to slide 32: "Crude Steel Production." He relayed that China produced the largest amount of steel, consuming more coal energy than anything else.

Dr. Jiang explained slide 33: "Share of total CO2 emissions from aluminum smelting, 2014." He spoke of the aluminum production in China that emitted high volumes of CO2 and used high quantities of energy during the production process. Not only did China have a large population, it was a large production country. As a result of these factors, CO2 emissions were going through the roof. He reported that China sought a 26 percent global total. The U.S. sought a

percentage of 21 percent. Emissions was a serious issue that china was trying to address.

Dr. Jiang discussed slides 34 - 39. He reported that coal use in the Chinese economy in the energy mix was mainly responsible for CO2 emissions. He mentioned coal was 80 + percent responsible for emissions. As a country, China was the largest CO2 emitter. Although China was the largest emitter of CO2, it argued that on a per capita basis, other countries such as India in the U.S. ranked higher. Never the less, on the population chart, with a 5 percent combined population of U.S. and Canada, North America emitted about 23 percent CO2. China emitted about 16 percent based on population. It was not country-based, but a calculation based on population. China used to use the percentages as a justification to do less. He claimed, "No more." Everyone else's per capita emissions in the projections were going down, while China's was going up. China finally understood that they had so much fuel to emission pollution. The public demanded it, and the policy makers wanted to do something about it.

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Dr. Jiang advanced to slide 40: "China's 13th Five Year Plan (2016-2020)." He explained that in China's 13th 5-year plan, which was more of a guidance plan than the centralized plan of the Soviet era, there was a major shift in the development paradigm. There was less emphasis on numbers and more emphasis on a balance between growth and the environment. He proclaimed there was a huge investment in clean energy sectors. There was a nationwide effort in reducing the use of coal. China wanted to replace the use of coal with natural gas. China's target kept changing and projecting more use of natural gas. The natural gas and LNG demand would rise as a part of the natural economic growth and the decisive centralized government policy driver. He reported that there had been a great need for China to change its policies.

Dr. Jiang turned to slide 41: "Where does China get its gas?" Central Asia delivered most of the land-based pipeline delivery of gas supply. It was an LNG import and had remained relatively the same for the past few years. Australia, Qatar, Indonesia, and other countries also lead in supplying LNG to China.

Dr. Jiang scrolled to slide 42: "China LNG import sources, 2012." He reported that in the previous year and for the first time, the LNG import had overtaken the land-based pipeline import from central Asia. The 38 percent overall dependency rate jumped from 2016. Year on year their growth was about 15 percent for gas imports which was considered slow. In the previous year it was 27 percent.

Co-Chair Seaton indicated that Senator Tom Begich had joined the audience.

Dr. Jiang relayed that in the following section he would look at the sectoral demand worldwide. He would be looking at the players in the field, the buyers of gas worldwide, and the gas suppliers. He would be investigating who were the suppliers and who were the competitors of Alaska LNG. He moved to slide 44: "Gas demand growth is driven by the non-OECD." The slide showed the demand for oil and gas primarily by non-OECD countries.

Dr. Jiang detailed slide 45: LNG trade growth twice as fast as global gas production." He elaborated that LNG in particular was developing much faster than pipeline gas delivery. He highlighted that with the technology driver and China was looking at natural gas trading. He believed LNG movement would become a very globally traded commodity.

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Dr. Jiang moved to slide 46: "Pace of global LNG supply growth has started to outpace Pacific LNG demand growth." He reported that the United States was not the only country looking at selling LNG and gas to China. He mentioned a number of countries. A significant amount of capacity was being added, many countries began to build before 2014 when the natural gas prices had skyrocketed in Asia. As a result, the current supply inventory was building up. It was almost at the margin. In the following few years, the demand and supply curve could meet. Alaska's timeline was sensitive, as there could be a large change in demand in the natural gas energy market within 6 years. There were several moving targets.

Dr. Jiang continued to slide 47: "This presents a challenging picture for spot prices in Asia and Europe from 2018-21." He spoke to the volatility of the natural gas

market. Recently the market had been flat, however, it was subject to change.

Dr. Jiang reviewed slides 48, 49, and 50. He reported that the top three countries, Japan, South Korea, and China, accounted for 60 percent of the global LNG on an annual basis. By the end of the previous year China overtook South Korea in the ranking moving into second position. He mentioned a downturn situation in the past but noted that the Chinese import was taking up the pace.

Dr. Jiang scrolled to slide 51: "Nominal Liquefaction Capacity by Country in 2016 and 2022." The issue was where the supply would come from if there was demand. The chart showed potential suppliers and competitors. He noted Australia had been building its capacity, whereas the supply in the Middle East was flat. He thought America's supply would shoot up. He would come back to Russia, which had a major interest, particularly in Alaska. He pointed to 3 very large jumps in terms of suppliers.

Dr. Jiang reviewed the regional breakdown on slide 52: "Liquefaction Capacity by Region in 2010, 2016, and 2022." He highlighted the capacity spikes in the Asia Pacific region, the former Soviet Union region, and the North American region. He did not count Canada. It had over 20 initiatives that were not moving significantly. He clarified that when he spoke of North America he was really talking about the U.S.

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Dr. Jiang discussed slide 53: "Chinese LNG Terminals." He relayed that China wanted to take all of the supply. It was busy building LNG terminals along its coastal line. He noted several pipelines that had been built as well in order to take in gas from central Asia. China was positioning itself strategically. China was very worried about the energy security environment and did not want to be too dependent on any one area. The United States and Canada were part of China's diversification. It was a very important move on the Chinese side to build all of the LNG terminals. China was over-working its terminal capacities. He had relayed that in terms of infrastructure the Chinese could build additional terminals quickly. There were major national oil companies involved in building terminals and

importing business. He thought Alaska was involved with the right partners.

Dr. Jiang detailed slide 54: "Russia-China Gas Deal May 2014." As far as LNG potential, China was not far from Russia. He recalled the Ukraine crisis from about 4 years prior in which U.S. lead European allies to impose sanctions on Russia. As a result, some of the projects were falling apart. After 10 years of difficult negotiations between Russia, Gazprom Energy, and the China National Petroleum Corporation (CNPC) they could not reach an agreement until Putin went to China explaining that Russia needed the project. Russia was under a significant amount of pressure. In May of 2014, a large deal was signed, a \$400 billion multi-year plan spanning 30 years. In November 2014, a similar deal was signed delivering the same amount. There was a massive Russian and Chinese collaboration. Many people were suspicious, thinking the deals were just talk. He confirmed that presently the Chinese were building very quickly. He highlighted the Yamal Project in which CNPC invested \$12 billion when Western sanctions had to withdraw funds. He would return to discuss the Yamal project because Putin opened it. It was the first delivery of LNG and equated to a \$27 billion project. There were many other projects he could discuss.

Dr. Jiang moved to slide 55: "Energy Alliance." China was way ahead of schedule. The Russian pipeline to the boarder was already completed. He indicated the Russians were real competitors in terms of land-based delivery. According to Gazprom, by 2025 they wanted to capture 10 percent of China's gas market, which he thought was very ambitious. The Russians were very eager to diversify because they were facing sanctions and most of their gas was via Ukraine, and Turkey selling to Europe. At the time they were not selling much to China, although they wanted their market.

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Dr. Jiang continued to slide 56: "Giant tiger, small bear." Russia had many contracts. In terms of a bilateral partnership, Russia was a large energy supply and reserve. In terms of economy and trade, Russia was small. The largest partner for Russia's trading was China, it was only 88 million in comparison to the partnership between China and the United States. Russia ranked only 9th in China's foreign trade chain.

Dr. Jiang explained slide 57: "Russia-China Gas Pipelines." The chart showed pipelines currently being constructed. They were planned and moving fast. They were not memorandum of understandings, they were real projects. He highlighted the Northeast part. In November 2014, another \$400 billion 30-year contract was targeted in the Western portion. China was not just depending on Russia, it was relying on Central Asia and the Middle East for a long time in terms of diversification.

Dr. Jiang advanced to slide 58: "Silk Road." He noted that the one-belt, one-road initiative by the current president was a \$1 trillion initiative. There were hundreds of billions of dollars already lined up for investment. The so-called "belt" was actually from the Chinese coastal line via Southeast Asia at the Indian Ocean all the way to the horn of Africa, up to the Middle East to Mediterranean Europe. The land-based route was identified along the traditional Silk Road via Central Asia to the Middle East to Europe. He was talking about infrastructure building all along the way. China had an infrastructure development bank and a Silk Road fund. They were all in operation. They were not in the planning stages, they were in the implementation phase. In the past 5 or 10 years China had been busy building all of the pipelines. He pointed to Turkmenistan - Uzbekistan via Kazakhstan. Kazakhstan provided oil while Turkmenistan and Uzbekistan provided gas.

Dr. Jiang turned to slide 59: "China-Central Asia Infrastructure Development." He noted there were multi-transit routes going to China all the way to Shanghai. The pipeline was more than 3,000 kilometers long and referred to as the East-West Connection Pipeline of China. The first line was built about 10 years prior, then the second and third ones were built, and more continued to be constructed. He pointed to Pakistan and Gwardar and mentioned the Burma-Kunming pipeline which was about 1,200 kilometers (similar to what Alaska planned to build - 800 miles of pipeline) going from Burma, at the Indian Ocean to Kunming, China. China decided to build the pipeline in 2010, began building it in 2011, and completed it in 2012. By 2013 China was building a second line.

Dr. Jiang had reviewed the customers and potential competitors who were supplying China with gas by land or sea. He had provided a global picture of things currently.

Next, he thought the committee should consider how Alaska would fit in, for deliberation of the project.

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Dr. Jiang scrolled to slide 60: "The AGDC-Sinopec MOU." He also wanted to discuss the viability of the AGDC-Sinopec project in the current environment. He suggested there were several questions around the viability, cost, size, and scope of the project.

Dr. Jiang reviewed slide 61: " China, LNG, and the Alaska Gas Pipeline." He began with discussing China's capacity in terms of doing such a project. The project would have a budget of more than \$30 billion, with a \$10 billion contingency fund, totaling about \$43 billion. It would be one of the largest energy cooperation projects in US history. It was new and unpredictable to Alaska but familiar to China. The Chinese had already done projects of the same or larger scope around the world just in the last 10 to 15 years. China had already dealt with the institutions Alaska was dealing with currently such as the Bank of China, China Investment Corporation, Sinopec, and CNPC. There were also state-owned enterprises and national oil companies teaming up with Chinese state-supported policy and financial commercial banking institutions. They were massively investing around the world for more than 10 years.

Dr. Jiang provided an example. The Democratic Republic of the Congo (DRC) in 2005 or 2006 started a massive \$20 billion initiative calling for infrastructure in exchange for copper. He mentioned China Railway and China Hydro, massive global-sized state-owned enterprise entities, going to DRC to build roads and train stations in exchange for developing a state-owned copper mine via a joint venture and a state-signed contract. He continued to provide detailed information about the exchange. He had tracked the investments for multiple years.

Dr. Jiang presented another example in Angola where infrastructure was built in exchange for oil. Angola was a major producer and ranked number 1 after Saudi Arabia. For many years Angola was number 2 on the list of top oil exporters. Payment of all loans (\$20 billion or more) were made in oil. He spoke of the price difference of oil and how that affected the amount of oil that was exchanged. At

\$60 per barrel the loan was paid at 40 percent less than at \$100 per barrel. Therefore, it took more oil to pay off a loan and, at times, left very little oil to spare. He indicated that this was the case in Venezuela.

Dr. Jiang explained that much of the loan from the China Development Bank went to Venezuela under President Chavez. Petroleum of Venezuela (PDVSA), the state-owned oil company, invested \$50 billion and received payments of oil to China. The Chinese were very concerned whether they would receive their payment. The key was that the Chinese were very flexible and innovative, and they liked dealing with state actors. He believed the Chinese would be happy working with AGDC, Alaska's government entity, because China had done similar projects around the world. He mentioned a large deal with Russia to supply gas. He noted that Alaska had its own competitor in the U.S. Gulf Coast already shaping LNG. That U.S. competitor had just signed a supply contract with China Energy Corporation committing to supplying China with 1.2 million tons of LNG per year with two subsidies of China Energy Corporation in the Gulf Coast area. China National Petroleum Corporation, the largest group in China, signed a deal for \$11 billion during President Trump's trading. In a \$250 billion package, three projects were about \$140 billion. Alaska's project was \$43 billion, CNPC's project was another \$11 billion, and West Virginia had a project worth \$83 billion developing shale gas. He suggested the larger comparison was the Yamel deal in the Arctic.

Dr. Jiang reported that the Chinese had been eying the arctic for a while. In the prior month, they had released their first white paper suggesting that it build an arctic silk road. The Chinese had gone to Russia and other arctic countries seeking to enter into free trade agreements including with Canada. He emphasized that the Chinese were deep into the Arctic with the Russians. He spoke of the location of the Yamel peninsula. He noted that the \$27 billion project produced about 16 million tons per year capacity versus the 20 million tons anticipated from Alaska's project. They delivered LNG in the past month, they were on budget, and were on time. He reported that of the \$27 billion, the Chinese put in \$12 billion in 2014. The contract work building 85 percent of the LNG modules to be assembled were bought and built in China. That was worth \$7 billion. They built 7 transportation trips related to the project and 14 of the 15 LNG tankers for the project.

The cost was more than \$8 billion. He reviewed the Chinese investment totals. He thought Alaska would be dealing with many potential collaborative issues between AGDC and china. He mentioned several different issues. He noticed the Chinese press and other observers had commented that the Alaska project would be good because there was government backing and the project would be larger than the Yamel deal.

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Dr. Jiang discussed slides 62: "China has deep pocket for overseas assets." He reported that China's total foreign reserve peaked at \$4 trillion. He thought it was currently \$3.5 trillion. China definitely had money for investments and liked investing in the U.S. However, the Chinese felt uncertain about the U.S. Treasury. They felt better about investing in genuine assets.

Dr. Jiang turned to slide 63: "Composition of China's foreign-exchange reserves." He reported that the Chinese were investing in many different energy assets.

Dr. Jiang moved to slide 64: "China Leads the World in Clean Energy Investment." He relayed that China was leading the world in alternative and renewable energy investments. China was leading the world in installation capacity and in investments. European countries and the U.S. were significantly behind. Some of the data indicated that China lead in installation capacity.

Dr. Jiang advanced to slide 65: "China's National Oil Companies." He highlighted that much of the traditional and new energy works were done by national oil companies. The slide listed 4 of those companies including China National Petroleum Corporation, Sinopec China Petroleum and Chemical Corporation, CNOOC Limited, and Sinochem Group. He wanted to inform members of something AGDC had not relayed. He continued that the top three companies used to be the ministry of energy in the 1980s. It was a state-owned enterprise, the state ministry similar to Russia. However, they reformed and tried to figure a way to break it up.

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Dr. Jiang discussed slides 66 - 73. He pointed to the blue line on the slide depicting the Yangtze River. Anything North of the Yangtze River was given to CNPC. Anything South of the Yangtze River was given to Sinopec Group. Anything not on the land offshore was given to CNOOC Limited. The initial stage was supposed to have some kind of division of labor because North of the Yangtze River sat most of China's upstream oil and gas fields. Most of China's refineries sat South of the Yangtze River. Naturally CNPC became focused on upstream, and Sinopec became focused on downstream. China's refinery was the second largest in capacity worldwide. CNOOC Limited focused on everything offshore. He noted the interesting division of labor. He indicated things had changed in the previous 10 years. As things evolved, the 3 companies started breaking barriers. They wanted to be integrated large international oil companies. They were trading in Shanghai, Hong Kong, and New York in their subsidiaries, even though they were all state controlled to a certain extent. PetroChina, a subsidiary of CNPC, was the largest group with 1.5 million employees. It dealt with most gas imports and built most of the pipelines. The corporation was building pipelines at unprecedented speeds. Alaska needed to contemplate whether CNPC would build the pipeline. He indicated that CNPC was very interested in building it. He noted that CNPC had approached Canada. However, Canada was not interested unless they had a local partner.

Dr. Jiang continued to talk about the major 3 companies. He noted that Sinopec was the second largest interested company. He indicated that CNOOC was the third largest oil company interested in Alaska's project. He mentioned that CNOOC was trying to purchase Unico for \$17 billion. He provided additional information about the possibility of the transaction with Unico. He provided additional investment details about the companies. He conveyed that they were important players and dominated China's energy sector and have done overseas investment.

Dr. Jiang continued that in looking at the LNG import business, Sinopec was a smaller player which meant they had room to expand with doing the LNG project with Alaska.

[2:34:16 PM](#)

Dr. Jiang continued to slides 74-75 that showed LNG imports in 2016. He indicated that in the first half of 2016 the

United States did not ship any LNG. In the second half of 2016, the U.S. shipped about 3 percent of China's LNG import. He thought the growth was interesting.

Dr. Jiang advanced to slide 76: "LNG Export Forecast from Qatar, Australia and the US." The chart showed the U.S. growing substantially reaching similar supply levels of Qatar and Australia by 2025.

Dr. Jiang moved to slide 77: "Japan LNG Demand Versus Contracted Volume: South Korea LNG Demand Versus Contracted Volume: Taiwan Gas Use." The chart showed normal projections for Japan, South Korea, and Taiwan. He pointed out that the supply from both Japan and South Korea were flat. China's supply would be very static.

Dr. Jiang provided a volatility example on slide 78: "China imports Projections Versus Capacity." The slide showed capacity and demand which indicated they might not need much. However, the policy drivers stressed that they convert as much coal power generating plants to natural gas as possible.

Dr. Jiang reviewed slide 79: "But recent interruptions show conventional wisdoms may be misleading." In the spring the executive orders were issued from multiple ministries to convert coal to LNG. However, by the time the notices went out from the environmental protection agency it was August. By the time October and November came around, not enough coal had been converted to gas and left the Northern part of China in a bind. People did not have heat because the order had been to stop using coal because of smog. However, there had not been enough time to convert the coal. The reality was that China had not finished the job of converting coal to gas and was in short supply. The situation became urgent. The central government issued urgent directives to convert back to coal, as people's livelihoods were at stake. However, coal was experiencing a slow season and they did not expect it to pick up. The coal industry experienced a bottleneck. China had a massive shortage of coal and LNG. He mentioned that earlier in the current month, China was receiving about 40 percent of its LNG from Central Asia, a land-based delivery from Turkmenistan. One day Turkmenistan's supply dropped 50,000,000 cubic meters from 120,000,000 cubic meters down to 70,000,000 cubic meters. The Chinese import system almost collapsed. It was reported that the equipment had

failed. Instead of fixing the problem, the supply was reduced. There was widespread speculation that some diversion of gas might have occurred because of the very cold winter. It was a perfect storm of a policy blunder combined with a market mess up that drove the spot price from \$7 to \$18 British Thermal Unit (BTU). People had called him from China looking for an LNG supply. People were desperate. China was facing a major jump in price of gas imports and anything related to coal. He indicated the price was \$10 BTU. Alaska was looking at a price of \$8 BTU versus \$7 BTU in the Lower 48. China faced a dynamic and volatile situation not caused by normal market conditions, but other unknown factors. Many Chinese were advocating for a more predictable and transparent supplier. He noted the dispute between Russian and the Ukraine about gas to Europe. The situation in China was good news for Alaska in terms of doing business with the Chinese. He warned that Alaska could expect a full bureaucratic struggle with the Chinese in the process.

[2:40:18 PM](#)

Dr. Jiang discussed slide 80: "Governing Structure of Chinese NOCs." The chart showed the decision-making process in China around energy. He had dealt with the multiple agencies associated with the process. He could elaborate in greater detail on the structure in the future. The Chinese would scrutinize the project, in part because of some of its previous investments not going very well.

Dr. Jiang referred to slide 81: "National Energy Administration (NEA)." He reported the National Energy Administration (NEA) was supervising the process. He briefly scrolled to slide 82 which showed NEA's internal structure.

Dr. Jiang continued to slide 83: "Bank of China." The Bank of China had been presented to members by Alaska Gasline Development Corporation (AGDC) and CIC. They had presented the Bank of China in a very credible light, which was true. It was a credible institution. The China Investment Corporation was another entity to have involved in Alaska's project. He displayed slide 84: "China Investment Corporation" as he talked. Sinopec was also another company worth having involved in Alaska's project. Shortly, he would review some of the lessons he had gleaned when

working on Canadian investments with these Chinese companies.

Dr. Jiang advanced to slide 85: "Major Chinese Investment in Canada since Late 2009." The chart reflected a \$35 billion investment by China into the Alberta, China energy sector from 2009-2013. Oil prices and stock prices were high, and Canada sold to China enthusiastically. He highlighted the \$15 billion CNOOC deal in red. At present, some of the investments listed were not doing well.

Dr. Jiang turned to slide 86: "CIC invested \$1.25 billion in Penn West Corp. in 2010, at over \$18 per share... Now..." One example of an investment not doing well was the CIC investment in Penn West Corporation. The company invested \$1.25 billion in 2010 paying over \$18 per share. Currently, the shares were worth just over \$1. The joint venture was completely gone.

Dr. Jiang scrolled to slide 87: "CIC invested \$500 million in 2009. Now..." China Investment Corporation also invested \$500 million in South Gobi Resources Ltd. In 2009, the shares were worth more than \$20 per share. Today the shares were worth about 20 cents each.

Dr. Jiang reviewed slide 88: "CIC invested \$150 million in 2012. Now..." He reported CIC's investment in Sunshine Oilsands Ltd., Sinopec, and the Bank of China. The total investment was \$300 million. The investors had to de-list themselves in 2005 in Canada. Currently, the shares were trading for 22 cents in Hong Kong Dollars, which was equivalent to 3 or 4 cents in U.S. dollars. The company was not going into production. He mentioned another example of a bad investment for Sinopec. He had several other examples.

[2:44:09 PM](#)

Dr. Jiang discussed the lessons learned by China on slide 89: "Chinese investment in Canada's oil sands." The Chinese had learned their lesson. In the case of Canada, China concluded that there was much more data and the corporation's bets on Canadian resources were worth less than 20 cents on the dollar. The good news was that they were shifting all the energy emphasis from Canada to the United States. He thought it was understandable why China was willing to sign up for a massive energy deal in the

previous year. China was now putting its eggs into the United States' basket. He thought the state needed to make some decisions about how to move forward.

Dr. Jiang moved to slide 91: "Conclusions." China was the largest growing market for LNG and was driven by market and policy. There was a strong desire by the centralized state to reduce the use of coal replacing it with LNG in the short-term. The energy market was volatile. Everyone saw potential which created competition of suppliers to China's LNG market. The global capacities were also increasing partly due to the United States. China's overseas investment was also shifting to the United States. Chinese large national oil company (NOC) and investment players were key drivers because they had been making investments all over the world. Therefore, in the context he had provided, Alaska was well positioned with the MOU between AGDC and Sinopec in terms of global supply and demand, China's shifting emphasis, overall momentum, and China's desire to buy more things from the US to balance trade. He mentioned the pending trade war with the Trump administration, which the Chinese wanted to avoid. China might want Alaska to focus on its efforts in the arctic as opposed to the LNG project. The Chinese were cautious and tough negotiators. He advised that there would be more work and expertise necessary to finalize the MOU. His recommendation was to engage extensively with China. He thanked committee members for their time.

Co-Chair Seaton acknowledged that Senator Bishop had stopped by the meeting.

[2:48:18 PM](#)

Representative Birch asked about the potential for China's energy independence. He also asked about the potential for shale gas production in China.

Dr. Jiang responded everyone was aware of the U.S. context of national security, energy security, and the independence debate. He commented that 4 or 5 years made a difference. He thought China had worsened in the past 10 years. China used to be in a similar situation as the U.S. was presently. China was 40 percent dependent on gas imports and 70 percent dependent on oil imports. Presently, the Chinese consumed about 11,000,000 barrels of oil per day, produced only about 4,000,000 barrels per day, and imported

about 7,000,000 barrels per day. He had watched the barrels of imported oil increase, raising China's dependency on imports. The Chinese policy makers were worried about their import numbers. Many countries had a 100-day reserve requirement. A couple of years ago China's strategic petroleum reserve fulfilled a week or two of consumption. Now it's reserves would satisfy two months of consumption.

Dr. Jiang continued that another debate was over China building a massive accumulation of reserve. Some Chinese thought it was not worth the cost to have that cushion. Another faction was adamant about not depending on Americans who were controlling all of the sea lanes in case of a conflict. He opined that the Chinese, overall, were too sensitive. China was banking on the largest partnership in terms of economic interaction. They thought the stakes were too high for the U.S. to go further into a trade war or a hot war. He spoke of China building up its military and a new generation of aircraft carriers. The Chinese wanted to eventually have its own capacity to guard but did not seem to have a solution. They did not have enough oil. There had been substantial discoveries of oil. However, they were challenged by geography and connection. The water requirement to extract shale was a barrier as well. Many people were more concerned with the country's supply of water rather than oil and gas.

[2:54:12 PM](#)

Representative Grenn asked about the culture and philosophies of the Chinese companies regarding investment and their potential reactions to a slow approach.

Dr. Jiang responded that China was not a very experienced international player. He recalled that the U.S. was leading the world in the oil industry in the second half of the 19th century. China had not had any oil discoveries until the 1960s. He provided examples of China's behavior that lead to success stories. China showed different patterns in business dealings. In the case of Alaska's project, Sinopec would be the off-taker of the partner, but not necessarily the owner. The ownership would remain in Alaska. Local expertise would be used. In terms of contracting, the Chinese were looking to contract build some of the project modules. China could move very quickly once they saw there was potential. He mentioned an example.

Co-Chair Seaton indicated that there were two more questions from members. He conveyed his appreciation that Dr. Jiang would be in town until the following day. Members could arrange a meeting with him through Senator Stedman's office.

2:58:14 PM

Representative Pruitt mentioned the Chinese demand focused on market and policy. He asked if there was a need to move away from coal as quickly as possible. He wanted to understand the philosophy around the country's concern with air quality.

Dr. Jiang replied that China had a large economy and was polluting its environment heavily. He was concerned about China. He wanted it to be healthy and environmentally friendly. He wanted the Chinese to have a middle-class life, breath better air, and not to suffer the CO2 global warming impacts. About 5 to 7 years previously China would have been very defensive about being asked to change something related to policy. The Chinese did not like the West questioning its contribution to emissions. Eventually, the impact of air pollution and CO2 emission took root. The Chinese became very concerned with air quality only after a few years of the Chinese government being passive. China shifted from being passive to being proactive. The key driver was a domestic consensus being formed. He emphasized that as China began integrating into the global economy, all of the Western major multi-national corporations started moving their production bases to China for the purpose of exports. He noted Apple products and Walmart items. He had calculated that 65 percent to 70 percent of export value of China's production was produced by foreign multi-national corporations in China for the purpose of exports. In the process he calculated all of the energy consumption, CO2 emissions, and combustion in China. He opined that China's environmental problem was also the United States' problem. His message was to treat the LNG project as a commercial project but also as an environmental project - helping to fight global warming. There was an international consensus.

Co-Chair Seaton reported that the committee had to move on to other items on the agenda. He thanked the presenter and members of the House Resources Committee for their participation.

3:05:47 PM

AT EASE

3:08:30 PM

RECONVENED

Co-Chair Seaton called the meeting back to order.

#hb321

HOUSE BILL NO. 321

"An Act making supplemental appropriations and other appropriations; making an appropriation to capitalize a fund; amending appropriations; and providing for an effective date."

3:08:48 PM

Co-Chair Seaton wanted to start with public testimony on the supplemental bill.

Co-Chair Seaton OPENED and CLOSED Public Testimony.

3:09:59 PM

AT EASE

3:10:16 PM

RECONVENED

Co-Chair Seaton indicated that no one had signed up to provide testimony on HB 321. He asked for comments from committee members.

Representative Thompson was opposed to rushing the supplemental bill out of committee. He wanted a couple more days to properly vet the bill. He thought it was necessary to have further discussion about certain items in the bill. Co-Chair Seaton asked if Representative Thompson had certain items he wanted to discuss. He conveyed that only one issue was brought up. He explained that any of the items all 4 co-chairs could not agree on as necessary to go in the fast-track budget were not included. The amount of \$170 million had come down to \$49 million. He suggested discussing the item Representative Wilson had brought up concerning corrections. Representative Thompson had the

same question as Representative Wilson. He asked for clarification on the related item.

Co-Chair Seaton recalled that Representative Wilson had a question that was addressed to the department for feedback. The department had replied with a letter. Hopefully the department had been responsive. He asked Representative Wilson if she wanted to discuss the issue.

Representative Wilson met with DOC and understood the portion regarding population management. She wanted to put on the record that the \$10 million did not have anything to do with SB 91. However, it had to do with the controversial fiscal note associated with SB 91. She clarified that when Palmer was closed, there was not a reduction in personnel. Rather, personnel were placed into other institutions. Historically, halfway house money had been used as an offset, although the money was reduced by a significant amount of \$8 million. Currently there was no extra cushion funds to rely on. She did not understand about the medical costs associated with prisoners. She wanted to better understand about the growth in the number. She reported there had been an increase of \$10 million in healthcare costs. She noted there was a supplemental request of \$10 million in the current legislation. There was also another \$10 million request for FY 19. She was unsure what drove the increase. She specifically wanted to know where the growth was derived. She remarked that \$10 million was a significant amount of money. She was aware that 2-3 people had been sent out of state because of high medical costs. A few more prisoners might be sent out-of-state. She was looking for a breakdown of the population management.

Co-Chair Seaton did not want to get confused, as the committee was currently dealing with the supplemental for FY 18. Representative Wilson wanted to ensure that it was not a one-time deal. Co-Chair Seaton invited the Department of Corrections to respond.

APRIL WILKERSON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF CORRECTIONS, asked Representative Wilson to repeat her question. She noted that Laura Brooks from the department was also available to provide more detail on the populations that the department was seeing.

Co-Chair Seaton mentioned a memo from the Department of Corrections dated, February 21, 2018 specifically

addressing the question. It was a three-page response to the question.

Representative Wilson asked about the actuals, and about what the department anticipated spending.

Ms. Wilkerson replied that the total budget for the physical healthcare component in FY 18 was \$30 million. In FY 17 the department spent just over \$43.5 million. She noted that the department received a supplemental in FY 17 and it made up an additional \$3 million through existing authorization within the Health and Rehabilitation RDU. She expected a shortfall of \$11.7 million. The department anticipated making up the difference between the supplemental ask of \$10.3 million, the difference of which would be made up within the existing authority. The shortfalls were currently within personal services, the contractual line, and the commodity line. The department was asking for the same amount to be added to the FY 17 budget because a shortfall of a minimum of \$10.3 million was expected. She thought Laura Brooks could speak to the actuals.

[3:18:36 PM](#)

LAURA BROOKS, DIVISION OPERATIONS MANAGER, HEALTH AND REHABILITATION SERVICES, DEPARTMENT OF CORRECTIONS (via teleconference), thought the question was about why the department's costs had increased. She conveyed that one of the things that had greatly influenced the department's budget was the treatment of Hepatitis C in the facilities. For the first time there was a cure. However, the medication was incredibly expensive. She reported that when the department first started treating inmates, the cost for a 12-week regimen was about \$120,000. The amount dropped down to about \$74,000 in the prior year, and it dropped again in the current year to between \$25,000 to \$30,000. A person might think that because the cost of the medication had dropped, the standard of care would broaden. She explained that individuals were treated based on the degree of illness and on the degree of fibrosis versus a 4-tier system. It used to be the department would treat the most severe at level 4. However, the standard had changed, and the department was now treating levels 3 and 4. Therefore, while the cost of the medication had decreased, the number of patients that were being treated had increased. In the current year, the department was expecting to treat about

20 patients with the medication at an unbudgeted cost of \$540,000. In the following year, the department anticipated that up to 200 inmate patients would be treated, equating to an unbudgeted cost of \$5.4 million. She reiterated that while the cost of medications treating Hepatitis C had gone down, the need had risen.

Ms. Brooks highlighted that the overall costs of pharmaceuticals had risen dramatically. Over the previous 5 years she had seen an increase in medication costs of almost 60 percent. Although the department had done a tremendous amount to streamline and reduce the number of prescriptions written (about 12 percent), there was still a 10 percent increase in the overall cost of pharmaceuticals impacting the department's budget substantially. As Representative Wilson indicated, the department never knew who would walk through the door. The department had had cancer patients that had run up costs in the hundreds of thousands of dollars who were pre-trial inmates with very serious charges. There was no option to send them out of state, to send them to a community residential center (CRC), or to enroll them in pretrial electronic monitoring (EM). The costs had to be paid by the department. Although Medicaid had been a benefit to the department covering the stays of inmates who were hospitalized for 24 hours or more, the largest increase was the fee for service costs. The department was spending about \$800,000 per month on fees for services to vendors outside of the facility. She cited examples such as going to an orthopedic specialist, a day surgery, a colonoscopy, or an eye exam. She also thought a change in prison population had influenced the rise in healthcare costs. Inmates were coming to the state sicker, with untreated medical conditions that were further complicated by substance abuse like opiate abuse. Opiate abuse was having a noticeable impact on emergency room visits. The department had over 840 visits costing anywhere from \$700 to \$5,000 per visit, sometimes more.

[3:23:33 PM](#)

Representative Wilson asked for expenses to-date in the areas of personal services, services, and commodities. They were the areas in which the department was requesting increases. She was looking at page 3. Ms. Brooks did not have the FY 18 year-to-date figures on hand. She had last year's numbers.

Representative Wilson was trying to figure out how much the department had already spent. Co-Chair Seaton relayed that the supplemental budget was projecting through the end of the year. It did not reflect the actuals already incurred to-date. He suggested having someone from the Legislative Finance Division come to the testifiers table. He relayed that the committee was not working with FY 18 actuals.

Representative Wilson suggested that the department already knew its numbers because it had determined a supplemental number to request. The department already knew its population management numbers. She wanted the information as it pertained to health services. She wondered if the division had already overspent.

3:26:28 PM

Ms. Wilkerson reported that although she did not have the actual breakout of numbers, she confirmed that the department had spent just over \$20 million of a \$30 million budget. The division did not have negative appropriations. There was a difference between the current \$11.7 million shortfall and the difference in the supplemental having spent just over \$20 million of a \$30 million budget. The department did not have negative appropriations presently. Of the department's personal services, it had spent about \$15 million. Under the contractual line, the department had spent just under \$10.7 million. Under the commodity line the department was just under the \$2 million mark. She could provide the actual report. She noted that of the department's medical costs, some of its providers were 6 months to 9 months out. She could not confirm that the expenditures were through 100 percent of the billings received to-date. They were through the invoices received within her office. The department was aware of anticipated items that made up the anticipated shortfall.

Representative Wilson was just trying to understand where the money was going.

Co-Chair Seaton added that the supplemental was to get the state through the end of the year. The figures were not known. He commented that the figures were projections except for the amounts already expended. He continued to remark about the varying numbers.

Representative Pruitt thought the supplemental request spoke more about the Department of Corrections' management over the prior year. The department had asked for an additional \$10 million for institutional operations. He pointed to the department's comments about the budget reductions being taken in anticipation of a reduction of the daily prison population of 1257 starting on July 1st. The daily reduction was around 500 which reflected a 757-person difference. He also highlighted that the anticipated savings would not be attainable until the projected reductions of SB 91 could be achieved. He indicated that the original number was projected by the department with the understanding that certain aspects of SB 91 would not be in place. However, the department was off by 757 individuals. He thought the discrepancy brought the management of DOC into question. He wondered how the legislature could trust the accuracy of the department's information.

Ms. Wilkerson understood Representative Pruitt's concern, as the department shared his concerns. Within the fiscal note, the department tried to accurately represent that the funding reduction was an annual immediate reduction while the projected population would be achieved over a period of time. The department knew it was behind the curve. At the bottom of the fiscal note, the department identified that a supplemental would be needed if the reductions did not occur. The department did not see the immediate drop in population as anticipated.

[3:31:46 PM](#)

Representative Pruitt asked why the initial numbers provided to the legislature were "best case scenario" numbers and used to plan the budget. He thought that the department's fiscal note should have reflected more realistic numbers. He noted that the changes made in SB 54 [Legislation passed in 2017 regarding crimes, sentencing, and probation] did not go into effect in time to change the department's numbers. The numbers were affected by not being able to attain something. He suggested that the department should have communicated that it could not meet its goals. Having the full information would have allowed the legislature to make a better-informed decision on SB 91 [An omnibus crime bill passed by the legislature in 2016] and for budget planning purposes for the following year.

Ms. Wilkerson replied that the department had been very hopeful about achieving its intended reductions. Two factors played a role in the department's circumstance. First, the inmate population had not reduced as the department had anticipated due to its difficulties with community placements. Second, there was a reduction to the FY 18 budget in the amount of \$8.1 million of existing authority to backfill the institutions. The additional reduction had burdened the department and left it without sufficient operational funding.

Representative Pruitt mentioned hearing about less use of halfway houses and electronic Monitoring. The state had not seen the usage of halfway houses in the capacity that was expected to generate savings. He asked about the commissioner's and leadership's policy decisions and why things had not shifted. Ms. Wilkerson deferred to the commissioner of the department.

Representative Wilson had additional questions regarding the bill. She referred to page 6, line 20 of the work draft which mentioned \$322,000 for paying judgements and settlements. She asked for more details.

3:35:53 PM

AT EASE

3:36:51 PM

RECONVENED

Co-Chair Seaton relayed there was only one case which was a Department of Environmental Conservation employment case.

Representative Wilson pointed to Section 7(b) where it talked about fund capitalization. Funds in the amount of \$30 million were being appropriated from the ACHI fund to the Community Assistance fund. She thought that, through legislation, the community assistance fund was being paid with Power Cost Equalization funds based on a formula contained in the bill. She wondered why the state would use health money. She referenced a previous occurrence in which \$55 million of the funds were used and partially repaid. She thought it would be better to leave the funds in place. She asked if the money would be paid out or left in its current fund.

Co-Chair Seaton explained that \$30 million was deposited annually into the community assistance program from the PCE fund, if available, to allow for the same payout each year. The problem was due to a gap year in which the governor put \$30 million from PCE funds into the FY 18 budget but nothing for the FY 19 budget. The legislature would be placed in the same situation of not having known funds for the following year. Therefore, in the proposed work draft, one-time ACHIA money was taken and placed into the supplemental for FY 18. Intent language was included that specified that \$30 million could be taken from the PCE fund to fund FY 19. The bill would fulfill the legislative intent to have \$30 million deposited into the fund each year in order to stabilize the Community Assistance Program. Rather than trying to cross fiscal years, they wanted to take the FY 19 budget and utilize the PCE excess earnings of \$30 million in statute for the fiscal year in which they were preparing the budget. They would take the one-time money from ACHIA and put it into the \$30 million that was not appropriated for FY 18 in the form of a supplemental appropriation. The municipalities and communities would know the amount of money they would receive annually.

Representative Wilson asked how much money the PCE Fund made in the current year. She also wondered about how much was paid out of the PCE fund.

[3:40:09 PM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, answered that it was not the current year, but it was the previous year. In FY 17 the earnings were about \$112 million which more than paid for the cost of the PCE program - roughly \$35 million. It left a substantial amount for community assistance in the amount of \$30 million. The money was intended to be deposited in FY 19 in order to know at the beginning of the fiscal year that the FY 19 deposit was covered by FY 17 earnings. As communities prepared their FY 20 budgets they would know well in advance that the money would be there. He explained that the other use of the PCE earnings of \$112 million after \$30 million was used for community assistance \$25 million could be used towards energy programs. The governor had split the \$25 million between supplemental in FY 19 [and another year]. The Office of Management and Budget indicated that there would be a change making the \$25 million occur all in

FY 19 just as all of the PCE earnings from FY 17 went to FY 19 community assistance. It was a matter of which fiscal year the money was assigned. The idea behind the legislation was to get the community assistance program back on track using earnings from the second prior year. In FY 19 the deposit would be based on FY 17 earnings. Similarly, energy program deposits made in FY 19 would be based on FY 17 earnings. However, it left a hole for FY 18, which needed to be filled in the supplemental process. The governor had proposed using the PCE earnings in FY 18. The Legislative Finance Division thought the proposal did not follow the intent of the law passed 2 years prior. He thought it was a matter of timing and finding fund sources to fill the shortage in Community Assistance funding.

Representative Wilson asked for the balance in the ACHIA fund once the \$30 million was removed.

[3:43:33 PM](#)

Mr. Teal thought it was important to focus on how much excess was in the fund. He detailed that the state had made 3 deposits of about \$60 million each, one of which was for FY 17. He reported \$55 million flowing out in FY 17. Only \$30 million was needed and \$25 million was refunded. He continued that \$60 million was deposited in FY 18. He reiterated that there were 3 deposits; one for FY 16, one for FY 17, and one for FY 18 through FY 22. The state obtained a waiver from the federal government for a 5-year program. The expectation was for the state to receive federal payments for the reinsurance plan. The amount of \$55 million for FY 18 - FY 22 took up \$55 million leaving 3 deposits to the fund and only 2 withdraws. The total amount of excess funding was about \$93 million. The Legislative Finance Division recommended that the state might want to spend about \$80 million rather than the full amount because it was uncertain how much the federal government would pay from one year to the next. He thought it would be better for there to be more money available 3-4 years from now rather than finding out additional deposits were necessary. The bottom line was that there was about \$93 million in the fund to be used for one-time expenditures. Co-Chair Seaton added a comment about one-time money.

[3:46:10 PM](#)

Representative Neuman understood the fast-track supplemental was being discussed relating to line 34 on the spreadsheet. He had a question beyond that. He referred to page 13, line 49 having to do with the open-ended appropriation for statutory designated program receipts for the AKLNG fund. The Legislative Finance Division notes stated that it was open-ended language that would allow the investments to be deposited into the AKLNG project and spent without further appropriations.

Co-Chair Seaton interrupted Representative Neuman indicating that the item was not presently on the table. Representative Neuman understood and had clarified himself at the beginning of his question. The way he understood the language, it conveyed that the administration could enter into an agreement with Sinopec or China Gas and the legislature would not have any say in how the money was spent or appropriated. He asked if he was correct.

Co-Chair Seaton did not want to discuss the budget that was not on the table currently. The only thing before the committee was the fast-track supplemental. He reiterated that he wanted to keep the focus on the fast-track supplemental.

Representative Wilson referred to page 7, Section 9. She asked why the word "reduced" was being changed to "adjusted."

Representative Guttenberg asked if Representative Wilson was referring to the bill or the spreadsheet. Representative Wilson responded that she was talking about the bill. She reiterated her question.

[3:49:12 PM](#)

JOAN BROWN, STAFF, REPRESENTATIVE PAUL SEATON, responded that the change was due to some of the monetary terms which currently included furlough days. In other words, it was not just a cash adjustment. The number of furlough days could be adjusted, resulting in the number going up or down.

Representative Wilson asked about the ratifications of certain expenditures on page 9, Section 10. Ms. Brown responded that generally there were ratifications in the supplemental every year. Usually they were in the capital

budget bill at the end of session. They were clean-up transactions to the accounting system. The funds had already been spent, and there was no additional cost. The ratifications did not add to the cost of the bill. It was an accounting clean-up transaction.

Representative Wilson asked why 2010 and 2011 were included. She asked if something had been missed. Ms. Brown could not say definitively why there were so many old transactions. If revenue was expected to be received that would have cleaned things up, the adjustments could drag on.

Representative Wilson suggested it could possibly be federal funds that were expected. In other words, general fund money was spent in the hope of another type of funding being received but had not been obtained to-date. Ms. Brown agreed.

Representative Pruitt wanted to return to the fund source change regarding community revenue sharing. He referred to page 6, line 13 of the bill and page 19 of the spreadsheet. He thought money that was earned in FY 17 was applied to FY 19. He asked about the earnings in FY 16 and how they could have been applied in the current year [FY 18]. He wondered why a draw from the PCE fund was necessary.

Mr. Teal responded that the earnings were only about \$8 million or \$9 million. The amount was insufficient to pay for the PCE program. There were no excess earnings available to make the FY 18 deposit for community assistance. He continued to explain that with no excess money, the governor did not ask for a deposit from PCE. He also did not make a general fund deposit to the community assistance fund. The legislature did not make a deposit either. If a deposit was not made before June of the current year the distribution to communities in FY 19 would be \$20 million rather than \$30 million.

[3:53:59 PM](#)

Representative Pruitt remarked that there was a policy call made by not funding community assistance. He wondered why the governor did not introduce it [an amendment]. He asked about the initial thought process.

Mr. Teal could not comment on the governor's thought process or policy decision. He could only confirm that the appropriation was not included in the budget. It was the basis for discussions between the chairman's office and the governor's office. The governor indicated his support for the community assistance program and wanted money deposited. However, he did not submit an amendment making the deposit. If the legislature decided to make the deposit, it would show an additional \$30 million of spending. He was not sure the legislature was willing to do that in the prior year, which resulted in the appropriation being placed in the supplemental bill.

Co-Chair Seaton added that there had been an appropriation to spend some money. He explained that \$30 million went into the fund and came out as an amount calculated based on how much money was in the fund. In the prior year, there was an appropriation offered to add an appropriation amount, rather than adding to the fund, which would have brought the amount back up to the level it had been the previous year.

Representative Pruitt asked if the amount was smaller. He thought the amount was \$8 million. Co-Chair Seaton replied that it was about \$8.3 million. He added that if the money had been in the fund, only about one-third would have been spent because it was the third distribution. It was added to the amount appropriated with a third taken out of the fund and \$8 million added. The legislature did not have to find \$30 million to place in the fund and then remove one-third of it. The legislature only took what was needed to make the past payment.

Representative Pruitt did not like appropriating funds through the supplemental because he thought the supplemental process was typically overlooked by the public. Co-Chair Seaton commented that he had brought the matter up so that the public could understand that the legislature had not capitalized the fund with \$30 million in the prior year. Instead, the legislature had supplemented the payment. Currently, the legislature was doing the capitalization.

[3:58:45 PM](#)

AT EASE

[4:00:37 PM](#)

RECONVENED

Co-Chair Seaton announced that it was Mr. Teal's birthday and presented him with a present.

4:02:37 PM

AT EASE

4:04:22 PM

RECONVENED

Vice-Chair Gara MOVED to report CSHB 321(FIN) out of Committee with individual recommendations.

Representative Wilson OBJECTED.

Representative Kawasaki indicated that it had been a while since he had seen a fast-track supplemental and understood the discomfort of some members to pass such legislation prior to discussing the budget. Historically, it had been how things were done for several years. He expressed appreciation for the work that had been done by both bodies in finding the agreement points on the items in the bill. He understood there would be a bolder discussion about the supplementals in general. He noted that the FY 19 budget discussions were ongoing. He would support moving the bill from committee.

Representative Pruitt understood wanting to pass an appropriation bill on things that the legislature agreed on. However, he was concerned with the use of the term "Fast-track" as it implied that there would not be the opportunity to properly vet it and offer amendments. The movement of the bill at such a quick pace did not allow for the public to properly weigh in on the policy calls being made. He did not understand why more time was not being provided. The appropriation was sizable at \$65 million. It appeared the request was less because of the money received from the Alaska Comprehensive Health Insurance Association (ACHIA) program. He reiterated his hesitancy to support the bill because of the process. He would be opposing the legislation.

Representative Wilson was concerned with the quickness of the process. One of her concerns had to do with the Department of Corrections portion. She had received the numbers regarding population management. She was aware the

department had a payroll date to meet and would not otherwise meet it. She mentioned the \$10 million supplemental request from the prior year and another anticipated. She thought it equated to a significant amount of money going out without a discussion about what could be done to save money. She was fine with fast-tracking anything as long as she could explain the legislature's actions to her constituents. She would be objecting because she did not agree with some of the items and because of the advanced pace of the bill.

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Grenn, Guttenberg, Kawasaki, Ortiz, Foster, Seaton

OPPOSED: Wilson, Pruitt, Thompson, Neuman

The MOTION PASSED (7/4).

CSHB 321(FIN) was REPORTED out of committee with four "do pass" recommendations, three "no recommendation" recommendations, and four "amend" recommendations.

[4:12:45 PM](#)

AT EASE

[4:14:05 PM](#)

RECONVENED

Co-Chair Seaton indicated that the subcommittee report and amendments for the Office of the Governor would be addressed on the following day's agenda.

#

ADJOURNMENT

[4:14:48 PM](#)

The meeting was adjourned at 4:14 p.m.