

HOUSE FINANCE COMMITTEE
May 4, 2018
1:38 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:38 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Les Gara, Vice-Chair
Representative David Guttenberg
Representative Scott Kawasaki
Representative Louise Stutes (alternate)
Representative Dan Ortiz
Representative Lance Pruitt
Representative Steve Thompson
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

Representative Jason Grenn

ALSO PRESENT

Gene Therriault, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Jane Pierson, Staff, Representative Neal Foster; Representative John Lincoln; Gene Therriault, Governmental Affairs and Legislative Liaison, Alaska Industrial Development and Export Authority, Department of Commerce, Community and Economic Development; Representative Dan Ortiz; Elwin Blackwell, School Finance Manager, Department of Education and Early Development.

PRESENT VIA TELECONFERENCE

Yulia Ellsworth, Controller, Alaska Industrial Development and Export Authority; Scott Brandt-Erichsen, Former Borough Attorney, Ketchikan.

SUMMARY

HB 119 AIDEA:DIVIDEND TO STATE;INCOME;VALUATION

CSHB 119(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact from the Department of Education and Early Development for Fund Capitalization, one new zero note from the Department of Education and Early Development, and one new zero note from the Department of Commerce, Community and Economic Development.

Co-Chair Foster reviewed the meeting agenda.

#hb119

HOUSE BILL NO. 119

"An Act relating to the dividends from the Alaska Industrial Development and Export Authority; relating to the meaning of 'mark-to-market fair value,' 'net income,' 'project or development,' and 'unrestricted net income' for purposes of the Alaska Industrial Development and Export Authority; and providing for an effective date."

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GENE THERRIAULT, DEPUTY DIRECTOR, STATEWIDE ENERGY POLICY DEVELOPMENT, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, communicated that the original bill primarily dealt with expanding the category of accounting adjustments that were backed out to get to true net income on a yearly basis. The bill would allow the Alaska Industrial Development and Export Authority (AIDEA) to use the true net income figure in its dividend calculation for the percentage of true revenue shared annually with the state. Since the time the dividend calculation had been put into statute, new accounting rules had been implemented that caused the entity to book a number of paper adjustments that over inflated, artificially inflated, or suppressed income. The agency would continue to follow all required accounting rules to

obtain its annual audited financial statement, but the legislature would tell the agency what number to take into the dividend calculation. It would be the agency's preference to backout the paper adjustments and get back to true net income. The number would be used in the dividend calculation. The change would smooth out some of the ups and downs in the dividend calculation and the amount of money shared with the state annually.

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Co-Chair Seaton MOVED to ADOPT the proposed committee substitute (CS) for HB 119, Work Draft 30-GH1677\J (Laffen/Nauman, 5/1/18) (copy on file).

Representative Wilson OBJECTED for discussion.

JANE PIERSON, STAFF, REPRESENTATIVE NEAL FOSTER, addressed the changes in the CS. The CS added a payment in lieu of taxes (PILT) for the Ketchikan shipyard and Red Dog mine. Additionally, some conforming and structural changes had been made in the drafting of the bill by Legislative Legal Services to ensure it conformed with legislative drafting.

Co-Chair Foster listed individuals available for questions. He asked to hear from Representative John Lincoln.

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REPRESENTATIVE JOHN LINCOLN, relayed the additional language in the CS regarding the DeLong Mountain Transportation System (DMTS) was a reauthorization of a property tax assessment exemption for the AIDEA-owned property connecting the mine to the port site where the concentrate was shipped out. The exemption had been in statute for over ten years and had expired the past November. The CS would reauthorize the exemption for another ten years.

Representative Guttenberg referenced a backup document [with information on the Red Dog mine and Ketchikan shipyard] provided by Co-Chair Foster's office (copy on file). He stated that over the years he had heard about the relationship between the PILT and the borough. He thought the bill would establish a village improvement fund. He asked if it was part of the criticism he had heard over the

years. He asked for detail about where the taxes and PILT had gone.

Representative Lincoln was unsure what criticisms Representative Guttenberg was referring to. He relayed that the Red Dog mine had been a blessing for the region and had provided numerous jobs for the entire state. The Northwest Arctic was a region with many unmet water, sewer, and educational facility needs. The mine operator had recently concluded strong negotiations, which had resulted in increased funding to the borough and the establishment of the village infrastructure fund and committee just getting underway. The expectation was for an increase of investment directly into the villages and the Northwest Arctic.

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Representative Wilson asked how the bill differed from what Fort Knox Gold Mine had to do in the Fairbanks Northstar Borough. She wondered if the exemptions were normal pertaining to mining. She asked if all of the assets were usually taxed for property taxes.

Representative Lincoln was unfamiliar with other mines and their relationship with the property tax exemption. He did not know whether other mines had AIDEA constructed or funded facilities.

Representative Wilson wanted to know how the exemption compared to how other mines paid in. She wanted to be consistent.

Representative Lincoln replied that the exemption in the bill was not for the Red Dog mine and property; it was an exemption for DMTS connecting the mine to the port and was owned by the state through AIDEA. He explained that if a mine was already on the road system and had public access to its facilities, it would not need the same type of infrastructure investment provided by AIDEA for the Red Dog mine. He believed there were possibly some fundamental differences between the two operations.

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Mr. Therriault agreed that the primary difference was that all Fort Knox facilities associated with the mine were owned by the mine. Whereas, in the case of the Red Dog

mine, AIDEA owned the port and road facilities, which were operated by the mine through a nonexclusive use agreement. The issue was about how the asset, or the use of the asset could or should be evaluated for purposes of local contribution to education and things of that nature. He clarified that the infrastructure associated with the Red Dog mine was a state-owned asset whereas, the Fort Knox facilities were owned by a private entity.

Representative Wilson asked why AIDEA still owned the [road] infrastructure if it was there for the purposes of the Red Dog mine. She understood the mine had probably needed help financing initially, but she wondered if it was normal for AIDEA to continue to own things after a long period of time. She viewed the port as a completely different situation and thought it would not be unusual for someone other than the mine to own it. She thought the situation put competing mines at a disadvantage. For example, Fort Knox owned all of its facilities and roads, which were counted as assets compared to the Red Dog mine where the mine, road, and port were viewed separately.

Mr. Therriault answered there could be additional mine properties developed that ultimately could use a portion of the port facility or transportation system. When the road had been created it had been determined that AIDEA would be the owner and would use its ability to access the financing market to secure favorable financing. He believed other mines preparing to develop would benefit from working in conjunction with AIDEA. He detailed that AIDEA was always open to an entity proposing the idea of working together. The agency was also supportive if companies chose to develop with their own access to capital.

Representative Wilson thought Mr. Therriault had stated that the Red Dog mine had an exclusive and was the only mine with access [to the road]. She asked if the road financing was complete or paid off.

Mr. Therriault answered it was still being paid off. The original financing had time remaining. Additionally, there had been a large expansion project that had been financed in the past. He believed the payments would come back to AIDEA for decades to come.

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Representative Wilson asked if the expansion was on the road or Red Dog mine facility.

Mr. Therriault deferred to a colleague, John Springsteen.

Co-Chair Foster noted Mr. Springsteen was not available at present.

Representative Kawasaki asked for an example. He asked for verification that AIDEA owned the road to the Pogo mine.

Mr. Therriault believed so.

Representative Kawasaki asked if the road to the Pogo mine was similar to the road to the Red Dog mine.

Mr. Therriault corrected his previous statement and clarified that he did not believe AIDEA owned the road [to the Pogo mine]. He stated the road was not a general public road, but he believed it was just the way it had been permitted with the Department of Natural Resources and constructed.

Representative Kawasaki referenced Skagway docks that had collapsed and been rebuilt by AIDEA. He asked if the Skagway docks were similar to the Ketchikan shipyard.

Mr. Therriault answered in the affirmative; AIDEA owned the asset.

Representative Kawasaki asked if the state would have expected someone in Skagway to ask for something similar to what Ketchikan was asking for at present.

Mr. Therriault replied it depended "what structure they would have access to the infrastructure." He pointed to page 2 of the bill, specifying it was an interest created by an operating agreement or nonexclusive use agreement. He continued it would be potentially covered if it was being utilized under that type of a structure.

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Representative Lincoln added he was not totally familiar with the costs of the expansion, but the initial investment for road and port [for Red Dog mine] was approximately \$265 million. He reported that to date Teck Alaska had paid

AIDEA almost \$500 million and had paid AIDEA \$24 million in FY 17 for use of the DMTS. He elaborated that the property was highly lucrative for AIDEA. People in the region and his borough were interested in gaining some ownership of the property.

Representative Wilson stated she had nothing against AIDEA but would prefer to see the money going to the borough and school system - there were extensive associated costs. She wondered at what point AIDEA recouped its investment and whether it would be better for the state at some point to utilize the funds to pay property taxes and benefit the region. She stated, "they can't pay both," and she would prefer funds to now go to the borough versus AIDEA.

Representative Kawasaki asked if the Nenana Bridge and road were AIDEA-owned.

Mr. Therriault did not believe so.

Representative Kawasaki was trying to think of other examples that comparable to the projects in the bill. He reasoned there had to be a municipality that received a PILT and had an AIDEA-owned facility under some type of agreement. He asked if Mr. Therriault could come up with other project examples.

Mr. Therriault deferred to a colleague.

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YULIA ELLSWORTH, CONTROLLER, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (via teleconference), did not have an example on hand. She did not know of a similar arrangement for any other AIDEA-owned assets.

Representative Guttenberg mentioned the Ambler Road, which was under development. There was no associated borough and the project included Doyon and national reserve lands. He asked how the projects in the bill were different and whether the model was relevant to both.

Mr. Therriault answered that a portion of the Ambler Road would be in the Northwest Arctic Borough if it was developed. The project was currently in the EIS [environmental impact statement] process. There had been a suggestion the road may be like the DMTS, but until the

permitting was concluded and financing was secured, knowing whether the road would be operated under a similar agreement was yet to be determined. There was the possibility that the project would closely resemble DMTS.

Representative Guttenberg spoke about the context where AIDEA would build a project and the mine developer would pay to access the road, pay off the bonds, and pay for upgrades and maintenance.

Mr. Therriault answered that it could be very much the same.

Vice-Chair Gara surmised that the bill would allow the lease hold interest used by Teck Alaska and owned by AIDEA, to be taxed through a PILT through the borough at about \$800,000 per year.

Mr. Therriault answered that the language in the bill gave an exemption for the value of the leasehold or operating agreement interest to be excluded from the calculation of a required local demand. He believed the mine actually did give a PILT to local governments, but it was outside of the bill. The bill ensured it would not be included in the calculation of the state required contribution.

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Representative Pruitt referenced the backup document provided by Co-Chair Foster's office with information on projects included in the bill (copy on file). He pointed to page 3 of the document highlighting that the Fed Ex hangar and Skagway dock were leased, whereas, the Ketchikan shipyard and DMTS were under operating and user agreements. He underscored the difference between the structures. For example, as a lease holder, Fed Ex had the ability to make all the money it wanted and could sublease the hangar. Whereas, the shipyard was required to have a certain amount of money set aside for repairs and at a certain profit level it had to give some of that money back to AIDEA and the communities. He believed the explanation was the best way to delineate the distinct differences between the two projects and other AIDEA assets that may be leased to individuals.

Representative Wilson asked about the current value of the road and port. She asked whether there had been an assessment by the borough.

Mr. Therriault did not believe there had been an assessment [of the road or port] by the borough. He could provide information on the total investment made in the facilities.

Representative Wilson asked if AIDEA had any existing process that would enable an entity (e.g. the shipyard) to purchase infrastructure after it had paid AIDEA a certain amount. She understood it was lucrative for AIDEA to be an owner. She wondered where the scale tipped for it to be more advantageous for local communities to benefit versus the state.

Mr. Therriault replied that at the current time AIDEA was happy to continue its ownership, which had been lucrative for the state. The ownership helped AIDEA achieve its statutory mission to invest in infrastructure, pay a dividend to the state off of the operation and use of the infrastructure, and generate funds that could support an additional economic activity. He did not believe there had been any consideration of divesting of the infrastructure. He was uncertain whether the mine had interest in purchasing the infrastructure outright. He mentioned the initial financing and expansion and believed the company found AIDEA's ability to access financial markets at a favorable rate desirable. The company had been supportive of continued operation with state ownership.

Representative Wilson remarked that a good business would opt to maintain ownership, which she believed was the reason Red Dog would want to take it over. She thought AIDEA's primary function was to be a financier on projects that may be great for Alaska and may not have done as well in the market. She wanted to ensure districts were not impacted negatively.

Mr. Therriault referenced testimony by Ms. Pierson that there had been some stylistic changes by the drafters. He remarked that the concept included in the legislation had been in the hopper for the past three years and it was the first time a CS had been triggered. The legislative drafters had a slightly different form to put the AIDEA dividend language in. He reported that AIDEA was amenable to the changes, which he had verified with the Department

of Law. He explained that Section 1 of the bill put the exemption in place, the language was removed from Section 2, and the effective dates in the last section would implement the exemption for ten years.

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Representative Guttenberg referred to an AIDEA sectional analysis (copy on file). He noted the references in the document were inaccurate, but it did not matter. He addressed that the bill would amend statute to add a definition for "mark-to-market fair value" adjustments that are mandated by the General Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP). He asked if there was an alternative way the calculations could be made that had not been included in the bill in terms of the way the mark to market fair value adjustments were done.

Mr. Therriault answered that the accounting requirements had not existed when the AIDEA dividend had been established in statute. At the time the legislature had not anticipated the new accounting rules coming into being. He clarified that AIDEA would still follow all of the accounting rules to obtain its appropriate audited financial statement at the end of the year. The agency was asking for the mark to market adjustments be added to the list of things that were excluded or backed out prior to making the dividend calculation. He pointed to existing statute on page 6, line 7 of the bill that pertained to excluding amounts [from the dividend calculation] related to specific things. The legislature had known there were some things it wanted backed out or excluded but they anticipated the new accounting rules, making it necessary to include additional items in the list of exclusions. The bill would add items to the list of exclusions.

Representative Guttenberg asked if the option presented in the bill was the only way to handle the accounting. He wondered whether there were alternative methods. He used oil taxes as an example and stated that taxed codes "defined those things." He asked if the option in the bill represented the exclusive remedy.

Mr. Therriault believed the option in the bill was the exclusive way and it dovetailed the best with existing statutory language where there were already certain

exclusions. The bill would add a few new adjustments that had not been contemplated at the time.

Ms. Ellsworth agreed the method in the bill was the only way to comply with the requirements mandated by GASB. She furthered that to be in compliance with the requirements, the bill provided one way to account for mark to market accounting. She explained that each industry had different options, but governmental entities had to follow the rules in the way outlined in the bill.

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Representative Guttenberg asked for verification it was the standard and exclusive method used by governments.

Ms. Ellsworth agreed.

Co-Chair Foster asked to hear from Representative Ortiz.

REPRESENTATIVE DAN ORTIZ, spoke to the Ketchikan shipyard portion of the bill. He read from a prepared statement:

The State of Alaska through the legislature and the Alaska Industrial Development and Export Authority almost 40 years ago decided the shipyard in Ketchikan would be a good investment to keep work on the Alaska Marine Highway and local ship repairs to keep that work within the state providing construction jobs and overall benefit to the economy. The facility opened for work in 1987 and expanded its services, its size, and its workforce since then. It continues to expand. AIDEA owns the shipyard and Vigor Alaska currently operates the facility under a ten-year contract with AIDEA. The agreement expires in 2025 and may be extended to 2035. The Ketchikan shipyard is a success story. The shipyard employs about 270 workers at an average salary of over \$80,000 a year.

The shipyard portion of the CS before us today would clarify the question of whether the perceived value of Vigor Alaska's long-term operating agreement for use of the AIDEA-owned tax exempt property should be included in the state's calculation of the Ketchikan Gateway Borough's required minimum local contribution to schools. When first established, the state treated the shipyard operating agreement as outside the

required minimum calculation - it had an exemption. The same as it treated the DeLong Mountain Transportation System, the AIDEA-owned road and port used by the Red Dog mine. But then, in 2012 the state adopted a different position based on its reading of the statute and started to include the assessed value of the shipyard agreement in its calculation of the Ketchikan Gateway Borough's required minimum contribution to schools.

The bill before us today would extend the exemption for the AIDEA-owned DeLong Mountain Transportation System to 2027 and add language to clarify that the Ketchikan shipyard shall be treated the same for purposes of calculating the local minimum share of education funding.

Representative Ortiz referenced Representative Wilson's comment about treating companies consistently. He was requesting the shipyard to be treated consistently with the AIDEA-owned facility DMTS. He continued to read from prepared remarks:

Much like AIDEA's decision to invest heavily in the Interior Energy Project to serve Fairbanks, the state's decision to help fund a gas pipeline extension to Homer and consideration of a road to the Ambler mining district, the Ketchikan shipyard helps put Alaskans to work while boosting the economy.

Representative Ortiz appreciated members' support for the CS.

Mr. Therriault elaborated that the CS would treat the two AIDEA-owned facilities (not leased long-term) operating under an operating agreement or nonexclusive use agreement the same. He believed the consistent application of the law would be beneficial for companies wanting to use the structure with AIDEA in the future.

Representative Wilson asked about the issue pertaining to an energy project in Fairbanks. She mentioned the recent purchase of Pentex Natural Gas Company. She stated that AIDEA's involvement in the gas project currently only included loans, which constituents would pay back if they ever received gas. She asked if the discussion was about the overpriced Pentex that AIDEA authorized to buy.

Mr. Therriault answered that at the end of the month when the deal closed, the locally consolidated and controlled enterprise would be paid for with state grants and loans constituents would be paying back. He explained it would not be an enterprise with ongoing AIDEA ownership.

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Representative Wilson surmised there was no connection between the gas project and how it was handled by AIDEA and the shipyard where the entire facility was owned by AIDEA.

Mr. Therriault replied that the only similarity was that the legislature had assisted with the infrastructure through AIDEA.

Representative Wilson wanted AIDEA to assist with obtaining loans. She was very concerned AIDEA would start owning assets and "say that they're not part of the school formula." She spoke to fairness. One of her complaints in Fairbanks was that personal property was counted as part of the formula. She strongly supported the state's military, but when they were assigned overseas they received large payments and typically moved from Alaska. Yet Alaska ended up with "a big formula of what we then have to do, as far as what our take is." She suggested that perhaps the formula needed to be changed. She was concerned that the issue pertained to actual facilities valued at high amounts. She asked about the current value of the shipyard.

Mr. Therriault did not know.

Representative Ortiz deferred the question.

SCOTT BRANDT-ERICHSEN, FORMER BOROUGH ATTORNEY, KETCHIKAN (via teleconference), shared that he had previously been the borough attorney and was now a private citizen. He replied that the assessed value for the Ketchikan shipyard was approximately \$27 million. He noted the figure may be off by \$1 million to \$2 million. Two years earlier the assessment had been \$29 million - the amount had been declining by about \$2 million each year and the term remaining in the current operating agreement was reduced.

Representative Wilson asked if there was a PILT with the shipyard and borough.

Mr. Brandt-Erichsen answered there was not a PILT paid. He elaborated that the operating agreement AIDEA had with the shipyard included a number of components. He explained that if the shipyard was profitable above a certain level there was an opportunity for revenue sharing with AIDEA and the communities. He relayed there had not been a PILT for the past decade or two of shipyard operation.

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Representative Wilson asked whether there had been any recent revenue sharing between AIDEA and the borough.

Mr. Brandt-Erichsen answered that he did not believe the borough had received any revenue sharing from the shipyard. Unlike the DMTS, the shipyard was not a terribly profitable operation. The function was more about providing jobs and service for marine highways. The breakpoint for profit sharing to occur was about 7.5 percent net profit. There was a dividend and payments that went to AIDEA, which were put in a reserve fund for replacements; those payments were made even if the 7.5 percent profit level was not reached. The borough itself had not received payments.

Representative Wilson referenced Mr. Therriault's discussion about the profitability of the Red Dog infrastructure, which kept AIDEA's numbers up. She assumed the shipyard did not achieve the amount of money AIDEA targeted. She asked about the percentage AIDEA tried to make off its projects. She asked what the shipyard brought in.

Mr. Therriault cited the suggested return of 5.06 percent AIDEA had been look for when it invested in the Pentex asset. Within all of AIDEA's investments - the Ketchikan shipyard made its payments but was not highly lucrative - the returns were mixed. Depending on commodity prices the Red Dog mine could be lucrative and could pay an extra dividend to the state through AIDEA. The average had been 5.06 percent.

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Representative Wilson asked what the percentage paid to AIDEA from the Ketchikan shipyard had been in the past year.

Ms. Ellsworth replied that in FY 17 AIDEA received approximately \$400,000 in revenue sharing from the shipyard. The money had gone into the R&R account used by AIDEA to help the shipyard pay for maintenance and replacement based on annual requests.

Representative Wilson surmised the shipyard had given AIDEA \$400,000, but the money was designated for repairs and other things for the shipyard. She asked for the bottom line number received [by AIDEA].

Ms. Ellsworth answered that AIDEA received about \$400,000 that went into an account. Throughout the year the shipyard could request assistance with replacement work - the shipyard submitted a form with the amount and AIDEA paid it back. She did not have the bottom line but would follow up.

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Representative Ortiz reminded the committee the shipyard was a different kind of project AIDEA was supporting (compared to the Red Dog mine). He explained that if the Ketchikan shipyard tried to generate huge profit it would be at the expense of repairs being done on the Alaska Marine Highway System (AMHS). He elaborated it would mean billing the state back in order to generate profits.

Representative Wilson considered whether it was time to contemplate private ownership (that might handle things differently) when AIDEA was not making the 5 percent target. She surmised they may not be able to because the AMHS ships receiving work at the port were state-owned instead of private. She thought it was probably a bit harder to come up with the numbers. The bill addressed two very different projects - one used a PILT and paid separately beyond a road and another that did not want to be on the tax rolls where the state would have to pick up extra because the numbers would change. She stated the bill was a very different than the last time it had been heard and amendments had been addressed.

Representative Guttenberg considered the difference between the DMTS, which facilitated the world's largest zinc mine with continuous production, and the shipyard that was not producing things with the exception of fixing the state's marine highways, perhaps building some boats, and

facilitating jobs. He stated he would love to think the shipyard could provide AIDEA with dividends similar to the DMTS, but he believed having the facility looked out for the state's best interest.

Mr. Therriault agreed. Although he had provided the 5.06 percent as AIDEA's average rate of return at a given time, AIDEA's purpose set by the legislature was to invest in infrastructure and create opportunities for jobs in Alaska. Sometimes supporting jobs was about all an investment could do and sometimes it supported infrastructure that had an ability to pay back more. He explained that the statutory direction for AIDEA was to have the infrastructure in place to support economic activity and jobs in Alaska.

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Representative Wilson WITHDREW her OBJECTION. There being NO further OBJECTION, Work Draft 30-GH1677\J (Laffen/Nauman, 5/1/18) was ADOPTED.

Representative Wilson reiterated that the bill was different than the last time it had been heard and no one had spoken to her about the projects that were now included. She remarked that the two projects were very different from one another. She was supportive of one of the projects and remained uncertain about how it all worked. She remarked that the legislature had been approached earlier in the year about a graphite mine, which seemed to fit AIDEA's requirements. She noted the mine was not in her district.

Representative Wilson observed that AIDEA legislation always liked to be "Christmas treed." She had always been amenable to putting more projects in because if AIDEA did the work and made sure the numbers penciled out it made sense to her to help encourage more development. However, she thought the shipyard was very different because they were asking for the value "not to be done, only because it's owned by AIDEA and not owned by private hands." Her only question about the Red Dog mine was why the company did not own the road. She surmised the company would probably like to own the road. She did not want people to start saying "I don't want to lease from AIDEA anymore, I want them to own it, so I don't have to pay the property tax that goes in it." She did not believe it was a path the legislature wanted to go down.

Representative Wilson viewed the bill as a policy call. She did not recall the details of the discussion on the Ketchikan shipyard in 2012. She was concerned about going in a different direction where AIDEA began to own facilities versus leasing facilities. When AIDEA leased the facilities, they were responsible for property taxes and contributing to schools and other areas. She reiterated the bill was a policy call and she did not know enough about the history to feel comfortable.

Co-Chair Foster agreed that things were moving at a quick pace, but unfortunately it occurred every session. He agreed it was a policy call. He believed the best way to move forward was put the bill to a vote.

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Representative Guttenberg asked if there was a companion bill in the other body.

Co-Chair Foster believed so.

Ms. Pierson answered the companion bill was SB 57 and was currently in the Senate Finance Committee. She explained that HB 119 would meet up in the Senate Finance Committee.

Representative Kawasaki asked if there was a matrix AIDEA and its board used to determine when a 10 to 20-year lease made more sense as opposed to cases like the Ketchikan shipyard and DMTS that had an operating and use agreement.

Mr. Therriault was not sure there was a decision making matrix. Much of the decision was based on what the user of the infrastructure wanted. He used a Fed Ex facility as an example and explained there had been a desire for the company to have a long-term lease for the facility. He detailed the project had been proposed as a long-term lease. Whereas, a decision had been made to advance with an operating agreement for the Ketchikan shipyard and DMTS projects. He addressed an earlier question and detailed that when a project was proposed in an area, before AIDEA could move forward it had to get support of the local governing bodies. If the Ketchikan Gateway Borough had been opposed to the structure, it could have withheld approval at the time. He clarified that AIDEA did not invest in things that were against the wishes of the local elected

bodies; it had to confer with and gain approval from local governments.

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Representative Wilson wondered why the graphite project she had mentioned earlier not been considered. She asked why the merits had not been discussed. She reasoned the mine was looking for the same consideration as Red Dog and other mines. She wondered if anyone had determined how the project measured up. She asked if AIDEA was in favor of something like that.

Co-Chair Foster replied that the proposed graphite mine was just northwest of Nome. The mine had wanted its project to be included in a bill; however, there was concern in the region by villages close to the mine including Teller and Brevig with regard to subsistence and other related issues. He had asked the mining company Graphite One to work the issues out with local communities including Nome, with original Native land profit, and get resolutions of support. He explained the project had not been stopped but was on pause.

Mr. Therriault added that AIDEA was happy to work with the company [Graphite One] and viewed the project as exciting. The company had decided the timing was not quite right. He detailed that it had been suggested earlier to ask the legislature for preapproval of bond authorization, but before AIDEA could act it would have to interact with local elected officials. He added that per AIDEA's statute, if there was no local government, a group had to be appointed to act and provide input like a local government.

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Representative Pruitt referenced Co-Chair Foster's comment that moving the bill out of committee would be differentiating the policy call opinions. He supported moving the bill out of committee. He thought the change in the dividend in the original bill was appropriate and he believed the intent of the projects was appropriate. It did not mean that at some point in time AIDEA may look at selling the DMTS. He did not want the infrastructure to be given to the borough or Teck Alaska because it was a state asset. He reasoned if the infrastructure was sold to the borough and the borough sold the asset it would be a win-

win. He did not support the legislature dictating to AIDEA how it should manage assets under its care. He continued that AIDEA was the state's infrastructure bank for a reason. He remarked that AIDEA recommended adding the projects in the bill because it was good for the projects. The bill would allow those things to continue. He believed when AIDEA came to the legislature requesting statutory approval, it meant AIDEA had done the analysis and was asking the legislature to join in the endeavor. He continued that if AIDEA decided it wanted to sell DMTS in the future, he would trust the agency to come to the legislature to have the public discussion and move forward. He believed the legislature had a terrible track record with getting involved in and politicizing projects.

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Co-Chair Seaton appreciated the fact that there needed to be local buy-in, but he did not see anything in the packet indicating the taxing authority of Ketchikan had taken a position on the issue. He suggested there should be something from the taxing jurisdiction showing its support. He reasoned it would be difficult on the [House] floor to be violating the assumption there was agreement with the shipyard and local taxing authority. He presumed that Representative Ortiz would pass the request on.

Representative Ortiz agreed. He reported that a borough resolution had been put forward in support of the measure. He would provide the resolution to the committee.

Co-Chair Foster noted that Representative Lincoln was also present and could help ensure the appropriate paperwork was provided for the floor.

Vice-Chair Gara reviewed the three fiscal notes. The first note was from the Department of Education and Early Development (OMB Component Number 2804) and included a cost of \$79,600. The note was a fund capitalization to the Public Education Fund. Due to the change regarding the Ketchikan shipyard, the borough contribution of \$79,600 beginning in FY 20 would become a state obligation. The second note from the Department of Education and Early Development (OMB Component Number 141) had zero fiscal impact. The third note was from the Department of Commerce, Community and Economic Development (OMB Component Number 1234) and had zero fiscal impact.

Representative Wilson referenced the fiscal note from the Department of Education and Early Development (DEED) OMB Component Number 2804. She pointed to language on page 2, paragraph 2:

Additionally, the statutory exemption for the Red Dog Mine sunset in November 2017. Under this bill, the exemption for the Red Dog Mine would be retroactively applied back to November 30, 2017...

Representative Wilson asked if anyone would be impacted. She did not understand why the language had been included.

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ELWIN BLACKWELL, SCHOOL FINANCE MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced himself.

Vice-Chair Gara believed there was a continuation of the exemption, which was the reason there was no change in the fiscal note.

Representative Wilson wanted to know if there was any impact to the community by making the exemption retroactive.

Mr. Blackwell replied that currently the exemption had expired. The bill would create a continuation of the sunset out to 2027 with no break. He believed the first extension had occurred in 2012. He assumed the retroactivity would negate any conflict about whether something was or was not included in the assessed values for the Northwest Arctic Borough.

Representative Wilson requested to have the borough ensure it would not be negatively impacted. She remarked the fiscal note showed the \$79,600 would be paid with general funds. She thought it should show the funds would go into the Public Education Fund.

Mr. Blackwell answered that the fiscal note (OMB Component Number 2804) showed the fund capitalization. The \$79,600 would be the General Fund money going in to capitalize the Public Education Fund. He detailed the Public Education Fund was used to make foundation payments.

Representative Wilson agreed. She thought the fiscal note should show a change in revenue or some indication of where the money would be going. She explained that typically money was taken from one place and directed somewhere else, the fiscal note showed the money would be taken from undesignated general funds (UGF) and transferred to designated general funds (DGF) in the school trust fund. Currently, the note did not specify where the money would go.

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Mr. Blackwell replied that he would have to get back to the committee.

Representative Wilson wanted to make sure they were capitalizing what they thought they were. Typically, the information was designated in the fiscal note.

Co-Chair Seaton stated his understanding that the \$79,000 was a reduced required local contribution because of a lower property tax value. He surmised the cost was shifted to the state because the Base Student Allocation (BSA) would still be the same and required local contribution would be less. He asked for the accuracy of his statements.

Mr. Blackwell agreed. The formula worked by coming up to basic need. Since there was no change to that side, basic need would remain what it would calculate out as. Since the required local effort for Ketchikan would decrease because its assessed values would go down, the state would pick up the difference. Who paid basic need was determined by subtracting out the required local effort and any impact aid; the remaining amount was paid by the state. When the required local effort went down it flowed through and the state aid ended up increasing.

Co-Chair Seaton recalled a bill where something similar had been done but it had required local effort to be sustained by what he thought had bene Nikiski. He asked if Mr. Blackwell was familiar with bills passed in the last six or seven years requiring local effort to be maintained by the locality because the legislature had passed an exemption for property tax but had not alleviated the required local effort for the schools.

Mr. Blackwell was not aware of the bills that may have seen a decrease in the assessed values or required local contribution where they would have to maintain it.

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Co-Chair Seaton MOVED to REPORT CSHB 119(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

Representative Wilson OBJECTED. She clarified her objection had nothing to do with ADIEA. She stressed that the bill was a policy call. She was concerned because there was a private company she was certain was not taking an annual loss and the bill meant there was another portion the company would not have to make up when addressing the amount of money it made. She may have been amenable if the company had been required to pay the \$79,600 as part of its lease, but she did not support exempting the company from any property taxes.

Representative Wilson was concerned the bill would set a precedence. She reasoned that when AIDEA went out, people may think it was better for them to own a project versus leasing. She did not know how much profit had to be made before certain things kicked in (e.g. 10 or 15 percent). She was supportive of the Red Dog portion of the bill. She was fine if the mine or the borough owned the road. Whatever fair market value was, she wanted to ensure the legislature was not saying a company should not own a road just because was a mine. She believed the company would keep the road well maintained. She wanted more information on the Fairbanks project and how Pentex would or would not be taxed.

Representative Wilson wanted to know whether the bill may hamper the borough's ability to tax any other kinds of things related to AIDEA projects being owned. She had not had ample time to understand what the bill did and whether it was a good policy call for the state to take the cost on. She thought a private company making a profit should contribute something to the cost. Currently, the infrastructure was contributing to jobs, but was not giving anything else financially to Ketchikan. She thought perhaps the details needed to be reworked so a project did not have to make as much profit before being required to give back to the community.

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Representative Pruitt appreciated the points made by Representative Wilson. He did not want an organization to get in the way of the private sector or do things the private sector may be able to do. He used Fed Ex as an example to highlight that sometimes AIDEA had to look at the situation and change how it made an investment. He detailed that Fed Ex did not own any of its buildings. He provided detail about the owner who leased the facilities to Fed Ex. The company's model was to lease all of its facilities. Almost 30 years back AIDEA had asked Fed Ex how it would guarantee it would bring a hub to and keep it in Alaska. He believed there were also times when AIDEA had to make some adjustments that may be a bit out of the ordinary.

Representative Pruitt relayed it had been his experience when visiting the Ketchikan shipyard in the past. He recalled the shipyard had been concerned about closing at the time. He believed there was an effort to think outside the box. He acknowledged it brought cost to the state and he understood the concern by Representative Wilson. He was also concerned about a loss of jobs that could occur in Ketchikan [if the shipyard closed] as the shipyard was a big employer. He also wanted to ensure there was a local location to send state ferries for work. He supported the bill moving out, but he agreed the comments by Representative Wilson needed to be taken into consideration. He thought AIDEA needed to be cautious about not doing something where the private sector should be stepping in.

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Representative Stutes appreciated the comments that had been made. She thought the Ketchikan situation needed to be looked at differently because the shipyard was a substantial asset to the community and the state in terms of jobs and ferry repairs respectively. She believed there was only one other shipyard that could possibly accommodate the ferries, which had exorbitant rates. Whatever someone thought the state may be losing related to the Ketchikan shipyard was made up with the ability to address the AMHS in that capacity. She thought the conversation about the shipyard and the DMTS was an apples-to-oranges comparison.

Representative Thompson spoke about the option to have an operating agreement or lease. He had always been under the impression that having an operating agreement meant an owner had hired someone to run something. Whereas, under a lease, AIDEA or the state paid a company for the use of a mine, shipyard, or other. He was confused by the language. Under a lease something would be taxable. For example, the Alaska Railroad had property in Fairbanks that people paid to lease, which became a taxable product in the Fairbanks Northstar Borough. He did not feel it was correct to use the language "operating agreement" to get around taxes. He thought the bill was significant for the Ketchikan shipyard and the Red Dog mine, both of which were important ongoing economic projects. He wanted to see the bill move though, but he thought the lease and operating agreement were two completely different things being intermixed.

[2:55:42 PM](#)

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Thompson, Gara, Stutes, Guttenberg, Kawasaki, Ortiz, Pruitt, Foster, Seaton
OPPOSED: Tilton, Wilson

The MOTION PASSED (9/2).

There being NO further OBJECTION, CSHB 119(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact from the Department of Education and Early Development for Fund Capitalization, one new zero note from the Department of Education and Early Development, and one new zero note from the Department of Commerce, Community and Economic Development.

Representative Wilson stated that one contract had already come back and there were five more remaining. The contracts would be approved automatically unless the committee chose to review them. She requested to review the contract that had come back. She stated that how one contract was treated typically set precedence for how the others would be treated. She thought it would be worthwhile to consider the justification for including an \$18 million increase in the next fiscal year.

Co-Chair Foster recessed the meeting [note: the meeting never reconvened]. He relayed he did not intend to have any finance meetings over the weekend.

#

ADJOURNMENT

[2:58:07 PM](#)

The meeting was adjourned at 2:57 p.m.