

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 10, 2018

8:03 a.m.

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair
Representative Geran Tarr, Co-Chair
Representative John Lincoln, Vice Chair
Representative Harriet Drummond
Representative Justin Parish
Representative Chris Birch
Representative DeLena Johnson
Representative George Rauscher
Representative David Talerico

MEMBERS ABSENT

Representative Mike Chenault (alternate)
Representative Chris Tuck (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 331

"An Act establishing the Alaska Tax Credit Certificate Bond Corporation; relating to purchases of tax credit certificates; relating to overriding royalty interest agreements; and providing for an effective date."

- MOVED HB 331 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 331

SHORT TITLE: TAX CREDIT CERT. BOND CORP; ROYALTIES

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/07/18	(H)	READ THE FIRST TIME - REFERRALS
02/07/18	(H)	RES, FIN
03/30/18	(H)	RES AT 1:00 PM BARNES 124
03/30/18	(H)	Heard & Held
03/30/18	(H)	MINUTE(RES)
04/04/18	(H)	RES AT 1:00 PM BARNES 124
04/04/18	(H)	Heard & Held
04/04/18	(H)	MINUTE(RES)
04/06/18	(H)	RES AT 1:00 PM BARNES 124

04/06/18 (H) Heard & Held
04/06/18 (H) MINUTE (RES)
04/07/18 (H) RES AT 2:00 PM BARNES 124
04/07/18 (H) -- Continued from 4/6/18 --
04/09/18 (H) RES AT 1:00 PM BARNES 124
04/09/18 (H) Heard & Held
04/09/18 (H) MINUTE (RES)
04/10/18 (H) RES AT 8:00 AM BARNES 124

WITNESS REGISTER

KEN ALPER, Director
Tax Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing of HB 331.

MIKE BARNHILL, Deputy Director
Office of the Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing of HB 331.

ACTION NARRATIVE

[8:03:24 AM](#)

CO-CHAIR GERAN TARR [following a recess from April 9, 2018, called the House Resources Standing Committee meeting back to order at 8:03 a.m.] Representatives Tarr, Birch, Parish, Talerico, Rauscher, and Josephson were present at the call to order. Representatives Drummond, Johnson, and Lincoln arrived as the meeting was in progress.

HB 331-TAX CREDIT CERT. BOND CORP; ROYALTIES

[8:03:53 AM](#)

CO-CHAIR TARR announced that the first order of business would be HOUSE BILL NO. 331, "An Act establishing the Alaska Tax Credit Certificate Bond Corporation; relating to purchases of tax credit certificates; relating to overriding royalty interest agreements; and providing for an effective date."

REPRESENTATIVE PARISH restated the purpose of Amendment 2, [moved and objected to during the recessed meeting of 4/9/18] labeled 30-GH2863\A.3, Nauman, 4/9/18, which read:

Page 6, line 25:
Delete "1.5"
Insert "two"

Page 13, line 24:
Delete "of 10 percent a year"
Insert "based on the true interest cost plus seven percent"

Page 13, lines 29-30:
Delete "1.5 percent and is less than ten percent applies each year"
Insert "two percent"

Page 14, lines 3-4:
Delete "1.5 percent and is less than ten percent applies each year"
Insert "two percent"

REPRESENTATIVE PARISH explained HB 331 incorporates two percentage rates: a fixed 10 percent rate and an approximate rate of 5 percent, "which floats on top of the true cost of borrowing for the state." Amendment 2 would provide for the 10 percent rate to float on top of the state's cost of borrowing. Further, Amendment 2 increases the lower rate by 0.5 percent to provide the state greater security at lower oil prices.

REPRESENTATIVE BIRCH stated opposition to Amendment 2. He referred to previous testimony by the Department of Revenue (DOR) which indicated a 1.5 percent rate is reflective of the state's cost; in fact, the floating rate is not 5 percent. Furthermore, the proposed bill is not to make money for the state but to recover the state's cost, and the amendment does not reflect the intent of the bill.

CO-CHAIR TARR asked whether the state uses a standard 7 percent [rate] for other programs such as the Alaska Permanent Fund Corporation.

[8:08:29 AM](#)

KEN ALPER, Director, Tax Division, DOR, advised the state's goal for a return interest rate is "roughly our own cost and we were

using that 7 percent figure [because] it lines up with what the permanent fund investment advisors think of as their ... expected earnings."

[8:09:12 AM](#)

MIKE BARNHILL, Deputy Director, Office of the Commissioner, DOR, added that the permanent fund's expected return is currently 6.5 percent. The rate in the bill was derived from a combination of earnings reserve assumed return and constitutional budget reserve assumed return, both of which are lower.

CO-CHAIR TARR asked whether a rise in interest rates would affect the cost of borrowing.

MR. ALPER further explained during the drafting of the bill trust interest costs were presumed to be 3.6 percent; rates are not expected to go down before the initial large bond offering. Under Amendment 2, if interest [costs] rose to 4 percent, the state would discount [tax credits] at 11 percent. For example, for a \$100 million company, a buyout offer that was affected by 0.5 percentage point would be adjusted by approximately \$700,000.

[8:11:33 AM](#)

The committee took an at-ease from 8:11 a.m. to 8:15 a.m.

[8:16:07 AM](#)

CO-CHAIR TARR removed her objection to Amendment 2.

[8:16:13 AM](#)

REPRESENTATIVE RAUSCHER objected to Amendment 2.

[8:17:47 AM](#)

A roll call vote was taken. Representatives Drummond, Parish, and Tarr voted in favor of Amendment 2. Representatives Lincoln, Birch, Johnson, Rauscher, Talerico, and Josephson voted against it. Therefore, Amendment 2 failed by a vote of 3-6.

REPRESENTATIVE BIRCH expressed his support for [HB 331], which he described as a creative solution to a long-standing problem and which could strengthen the state's economy, enhance oil

production and development, and address the state's debt liability.

REPRESENTATIVE PARISH remarked:

I'd like to just get on record that I wasn't able to get the third amendment drafted ... to explicitly say that if we put this into place we plan to depart from the statutory schedule, and I was ... hoping to find some way of, of both honoring our statutory obligations perhaps by having people keep their place in line ... but we weren't able to get it drafted at this point. ... And as the bill exists right now, it would be in my opinion a legitimate, unfortunate, a poor choice but perhaps a necessary one under the statute at present, to appropriate not only the ... statutorily designated amount but also the, whatever debt service we should decide upon. ... I do remain somewhat dubious of the bill, I commend the, the administration for the, the thought that went into this, it is, in fact, a way to rebalance the playing field ... it could potentially result in more money in state coffers I just have some serious reservations about the schedule of repayment, how it will interact with the existing statute and the notion of contracting state debt by another name

[8:21:22 AM](#)

CO-CHAIR JOSEPHSON referred to liabilities associated with the bill and pointed out the contracts created by the bill would be novation contracts, which are new contracts. He said he was unsure of the actual liability and said, "... I don't treat the constitutional questions as entirely frivolous, I think that there have been some references to AHFC and the pension obligation history, ... [we're] sort of trying to mirror some of the ways in which - I think it's [article 9 of the Alaska State Constitution] - that there are sort of exceptions to the rule ... [and] the constitutionality would be affirmed." He expressed his support for the motion to move the bill.

REPRESENTATIVE TALERICO said he appreciated the administration's thorough explanation of HB 331, and views the bill as a plan to resolve some of the state's tax credit issues. Further, the bill could restore activity for the industry and grow the oil and gas industry workforce.

CO-CHAIR TARR said she would not support the bill due to the [financial] mechanism, although she agreed the [tax credit] obligation needs to be addressed. She pointed out there is a statutory schedule for payout, which could be exceeded; however, when bonds are issued to pay a debt, non-payment could affect the state's credit rating, thus the proposed state debt would transfer from "an interest-free debt" to an obligation that may threaten important state programs. Co-Chair Tarr said her preference is to establish a state fiscal plan and determine how to pay the existing debt.

REPRESENTATIVE JOHNSON expressed her support for the bill.

[8:27:59 AM](#)

CO-CHAIR JOSEPHSON moved to report HB 331 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 331 was reported out of the House Resources Standing Committee.

[8:29:03 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 8:29 a.m.