

HOUSE FINANCE COMMITTEE
April 1, 2019
1:30 p.m.

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CALL TO ORDER

Co-Chair Wilson called the House Finance Committee meeting to order at 1:30 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Tammie Wilson, Co-Chair
Representative Jennifer Johnston, Vice-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton

MEMBERS ABSENT

None

ALSO PRESENT

Representative Steve Thompson, Bill Sponsor; Dan Britton, General Manager, Interior Gas Utility; Colleen Glover, Director, Tax Division, Department of Revenue; Lynn Gattis, Staff, Representative Tammie Wilson; Tim Mearig, Facilities Manager, Department of Education and Early Development; Nils Andreassen, Executive Director, Alaska Municipal League; Heidi Teshner, Administrative Services Director, Department of Education and Early Development, Office of Management and Budget.

PRESENT VIA TELECONFERENCE

Bryce Ward, Mayor, Fairbanks North Star Borough, Fairbanks; Michael Meeks, Chief of Staff, Fairbanks North Star Borough, Fairbanks; John Cook, J and J Development,

Fairbanks; Jomo Stewart, Fairbanks Economic Development Corporation, Fairbanks; Jim Anderson, Chief Finance Officer, Anchorage School District; Bryce Ward, Mayor, Fairbanks North Star Borough, Fairbanks; Cheyenne Heindel, Mat-Su Borough, Palmer; Lucy Nelson, Northwest Arctic Borough, Kotzebue; Dr. Annmarie O'Brien, Superintendent, Northwest Arctic School District, Kotzebue.

SUMMARY

HB 87 LIQUEFIED NATURAL GAS STORAGE TAX CREDIT

HB 87 was HEARD and HELD in committee for further consideration.

HB 106 SCHOOL BOND DEBT REIMBURSEMENT

HB 106 was HEARD and HELD in committee for further consideration.

Co-Chair Wilson reviewed the agenda for the day.

#hb87

HOUSE BILL NO. 87

"An Act extending the liquefied natural gas storage facility tax credit; and providing for an effective date."

1:30:39 PM

REPRESENTATIVE STEVE THOMPSON, BILL SPONSOR, introduced himself and thanked the committee for hearing his bill. He read a prepared statement:

This bill came about through conversations with stakeholders in the Interior about our progress on efforts to mitigate high energy costs and improve our air quality. A key theme in these conversations has been the importance of ensuring that we're doing everything we can to stay on track with the Interior Energy Project. In 2015, the Legislature passed HB 105 to renew and advance the Interior Energy Project, a project designed to bring low cost energy to as many residents and businesses of Interior Alaska as quickly as possible. It has resulted in the creation of the

Interior Gas Utility a not-for-profit public utility serving the Interior.

In 2012, the Legislature passed legislation to incentivize the development of liquid natural gas storage, a key component in achieving the economy of scale that will enable widespread use of natural gas in Fairbanks and North Pole. This legislation provided credits for the construction of above ground LNG storage facilities with a capacity of 25,000 gallons or more. There are currently two projects underway, one in Fairbanks and one in North Pole, that will benefit from these credits.

HB 87 will extend the sunset date of the original legislation by 18 months in order to ensure that the projects underway will be able to capitalize on the existing credits. This is a bill that can help to lower energy costs and improve air quality in an area of the State that desperately needs to do both.

Representative Thompson relayed that the general manager of the Interior Gas Utility, Dan Britton, would be giving a slide presentation. He noted there were several people online who wanted to testify to the bill.

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DAN BRITTON, GENERAL MANAGER, INTERIOR GAS UTILITY, introduced himself and the PowerPoint Presentation: "Fueling the Future." He thanked the committee for the opportunity to speak to them about important storage tax credits for the community of Fairbanks. He began with slide 2: "Interior Energy Project Purpose and Goals: Interior Alaska." He relayed that the purpose of the Interior Energy Project was to bring low-cost energy to as many residents and businesses of Interior Alaska as possible in a timely fashion. Other goals of the project were to stabilize the economy and to help improve air quality.

Mr. Britton discussed slide 3: "History":

- Fairbanks Natural Gas, LLC(FNG) began operating in Fairbanks in Spring of 1998 giving Interior residents a natural gas heating option. Over 1100 residential and commercial customers are currently able to enjoy the benefits of natural gas.

- In November 2012, the Fairbanks North Star Borough(FNSB) acquired its natural gas utility power via transfers from the City of Fairbanks and the City of North Pole and established the Interior Alaska Natural Gas Utility(IGU).
- May 2018, the IGU consolidated with FNG and now operates as an integrated, not-for-profit public utility.

Mr. Britton continued to slide 4: "Energy Costs and Air Quality." He indicated that some of the reasons the project was so important to the community were listed on the slide. He read the slide contents:

- According to the Council for Community and Economic Research, the FNSB typically has the highest utility costs in the nation for the 300-plus urban areas regularly surveyed.
- In September 2006, the EPA lowered the National Ambient Air Quality Standards for fine particulate matter less than 2.5 micrometer in diameter (PM 2.5) a human health hazard.
- In 2009, the EPA designated the more populated portions of the FNSB as a non-attainment area relating to PM2.5. The eastern portion of the non-attainment area (North Pole) has the worst air pollution in the nation, three and a half times the legal limit and almost two times worse than the next worse area in the U.S.
- The FNSB's long-term efforts for clean air are focused on bringing clean, affordable natural gas to the Fairbanks area for space heating.

Mr. Britton moved to the chart on slide 5: "Heating Cost Comparison: U.S. Natural Gas vs. Anchorage Natural Gas vs. Fairbanks Heating Fuel Equivalent." He explained that the slide showed a comparison of the price of heating fuel in Fairbanks to the price of natural gas in Anchorage and in the United States. He pointed out that the cost of heating in Fairbanks was higher than most places in Alaska with natural gas service.

Mr. Britton reviewed the chart on slide 6: "Heating Cost Comparison: Fairbanks Heating Fuel vs. Fairbanks Natural Gas Equivalent." He noted the slide showed the historical heating costs in Fairbanks to heating oil. He indicated the green line represented stably priced energy. The blue line represented the cost of heating oil. For the most part, the price of natural gas was less costly than heating oil, but at times of low oil costs, heating oil could be slightly less.

Mr. Britton continued to slide 7: "Fairbanks Large LNG Storage Tank." There were 2 projects he would discuss with the committee. The first project was the Fairbanks large liquified natural gas (LNG) storage tank. The tank had a capacity of 5.25 million gallons and was a full-containment, double-wall design - the safest available. He noted that construction started in January 2018 and was advancing on schedule. The estimated completion date was Fall 2019, and the total construction cost of the project was \$58.4 million. The tank had been termed, "The heart of the interior project." The tank allowed for new customers and would begin to alleviate poor air quality.

Mr. Britton turned to the picture on slide 8: "9th (Last) Row Welding." The picture showed the inside of the LNG tank. He pointed out the suspended deck and the aluminum ceiling. He reported that the steel inside tank was made of 9 percent nickel. Liquified natural gas was stored at -260 degrees Fahrenheit. The specialty alloys could handle the cold temperatures.

Mr. Britton discussed the picture of the outer tank stairs on slide 9. He reported that the tank was almost complete, and stairs were being added to the tank. The piping and venting were also being worked on currently. Good progress was being made on the facility.

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Mr. Britton advanced to slide 10: "North Pole Storage." He reported that in addition to the Fairbanks storage facility, there was a storage facility under design for North Pole. Distribution systems had been installed in Fairbanks and North Pole. The North Pole storage facility

was designed to serve the previously installed distribution system. He read the slide:

- Design of the \$12.1 Million LNG storage facility in North Pole is complete and a Request for Proposals was issued February 14, 2019. Proposals are due March 21, 2019.
- The targeted completion of construction is November 15, 2019 with operational startup and commissioning by December 31, 2019.
- The storage facility will have two 75,000 Gallon storage tanks and a multi-purpose building and will be connected to the previously constructed 73 miles of pipe infrastructure in the North Pole area.

Mr. Britton expounded that the two tanks that were part of the facility would be relocated from the existing storage facility, currently providing service in Fairbanks, once the new 5.25 million gallon tank came online.

Mr. Britton continued to the North Pole Storage site plan on slide 11. He pointed to the two 75,000 tanks. There was an area where the trucks could offload. He noted the vaporization equipment that would bring the gas from -260 degrees Fahrenheit to 50 degrees Fahrenheit to be injected into the distribution pipe. The facility was located across from what was historically the Flint Hills Refinery and from one of Golden Valley Electric's power plants. Golden Valley Electric would be a potential consumer of natural gas in the future.

Mr. Britton reviewed the benefits of storage on slide 12. He read from the slide:

- The development of expanded LNG storage facilities in the Fairbanks and North Pole areas is a critical component of the IEP as they will increase the security of supply and provide capacity to serve a greater number of new customers.
- These storage facilities, with current liquefaction infrastructure, enable IGU the ability to serve approximately 3000 new residential customers beginning the summer 2020.

- The state's LNG storage tax credits are vital in helping to bring down the cost of providing natural gas to Interior residents.
- All money from tax credits for tanked storage will be under the oversight of the Regulatory Commission of Alaska, the IGU Board and the FNSB Assembly to ensure these savings are passed along to the rate payers.

Mr. Britton reviewed the estimated impact on rates on slide 13. The Fairbanks facility would qualify for the maximum available credit of \$15 million. The alternative was 50 percent of the total capital costs. The North Pole facility, with a \$12 million capital investment, would qualify for an approximate \$6 million credit. The total credits for the two facilities would equal \$21 million. The range of the rate benefit to consumers based on the current demand was almost \$2 per 1,000 cubic feet. Under the best case demand, the amount was about \$0.72 per 1,000 cubic feet. As demand grew, the cost would be spread over more volume. If the Interior Gas Utility was unsuccessful with storage tax credits, it would need to incur approximately \$21 million in additional debt directly impacting customer costs.

Mr. Britton advanced to the map of installed piping in Fairbanks on slide 14 which included approximately 140 miles of distribution pipe network. A significant portion of Fairbanks had access to Natural Gas. On the South side of the map there was a small red square showing the location of the storage facilities from which the gas would be sent out into the distribution system.

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Mr. Britton turned to slide 15 showing the map of the 72-mile installed piping network in North Pole. It was South of Hurst Road in one of the higher areas of non-attainment for poor air quality. He offered that expanding gas into the area was extremely important.

Co-Chair Wilson commented that she did not have a conflict of interest because the pipe did not run to her house.

Vice-Chair Ortiz clarified that without granting credits to North Pole and Fairbanks the borough would take on an additional \$21 million in debt. He asked if he was correct.

Mr. Britton replied that it would be the rate payers of the Interior Gas Utility who would take on the debt. The borough would not take on the debt, rather it would be the utility.

Vice-Chair Ortiz suggested that if the state were to take up the credits, it would be obligated in the initial \$21 million. He wondered if he was accurate.

Mr. Britton responded in the affirmative. The state would pay the tax credits.

Representative LeBon informed the committee that the pipe ran in front of his home in House District 1. He noted that his district contained the heaviest concentration of piping extending to residential and commercial properties. He noted that the community of Fairbanks had been waiting about 50 years for the project to come online. Although service was already available to 1,100 Fairbanks customers since 1998, the concentration for the home owner was significantly greater than under Fairbanks Natural Gas. He was excited about the project and asked committee members to support the extension of the timeline for the credits. They were critical to the energy needs of Fairbanks and to breathing clean air which provided multiple benefits.

Representative Josephson commented on the slide reflecting 3,000 customers. He was trying to determine if more storage facilities would be needed with a population of about 90,000 in the Fairbanks area.

Mr. Britton responded that the facilities under development represented the first step for the Interior Energy Project. The storage facilities allowed the utility to add new customers. The next step would be additional liquefaction capacity. The utility was currently designing to expand liquefaction from 50,000 gallons per day to 100,000 gallons per day with an additional 100,000 gallons per day. The board of directors approved the utility moving forward with the front end engineering and design work for the project. The Storage facility allowed the utility to use its existing production assets running them 365 days per year. The utility would fill the storage in the summer and draw

it down during the winter to meet peak needs of the first group of 3,000 new customers. The additional liquefaction capacity allowed the utility to go beyond 3,000 customers and to begin adding the following several thousand. The storage facilities were meant to satisfy the Interior Energy Project's storage needs well into the future.

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Co-Chair Wilson directed Ms. Glover from the Department of Revenue to review the fiscal note.

COLLEEN GLOVER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, indicated she had visited the storage tank in Fairbanks and was very impressed by it. The fiscal note had a zero fiscal impact to the Tax Division. It was an extension of an existing credit that was already programed into the division's system. The fiscal note was indeterminate because of the division not wanting to forecast tax payer confidential information. The taxpayer had provided new information required for the credit. Also, she relayed that if the credit was extended, it could open up to new entities that the state was not aware of. She reported that no one had received the credits to-date. The period of the extension was 18 months and would only apply to LNG storage facilities with a certain capacity. There were provisions in current statute that if the facilities were to cease operation within a certain amount of time, after 9 years they would have to pay back a portion of the credits. These provisions did not change with the bill. The bill had an immediate effective date.

Co-Chair Wilson asked if the credit was a cashable credit or one that could be taken off of their tax liability.

Ms. Glover responded that the credit could be handled either way. The tax credit could be paid with cash from the Oil and Gas Tax Credit Fund or it could be taken as a credit against a facility's state corporate income tax.

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Co-Chair Wilson OPENED Public Testimony.

BRYCE WARD, MAYOR, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS (via teleconference), spoke in support of the bill. He indicated that the Fairbanks North Star Borough (FNSB) had

approximately 100,000 residents with about 25,000 homes. The additional 3,000 new customers, made possible with the expansion of the storage tanks, was 3,000 of the 25,000 homes. The project was also a key component in addressing the air quality issues in the Interior by allowing a cleaner source of energy to be used for wood, solid fuel burning heating mechanisms, and for oil fired heating devices within a home. Natural gas was a much cleaner source of fuel than fuel oil or some of the other solid burning appliances currently being used. Currently, the majority of the FNSB was in a non-attainment area. It was critical for the borough to address the current air quality problem.

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MICHAEL MEEKS, CHIEF OF STAFF, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS (via teleconference), spoke in favor of the bill. He had been an original board member for the Interior Gas Utility. As chairman and vice chairman of the board, he attested that the Interior needed the gas tax extension for LNG storage facilities. The last financial model he had seen incorporated the tax credits into IGU's calculation for the estimated cost at the meter for the customer. He suggested that without the extension, the price of the meter would increase for the customer, and the number of customers that would convert from fuel oil to natural gas would decrease. The loss of the tax credits would mean that IGU would have to make up the money somehow - most likely through bonds incurring more debt. The loss of the tax credits would incur an additional \$21 million in debt and would add an additional \$1.93/MCF to the customer using the current demand forecast models. The cost at the meter had to be low enough to attract customers. The project was already challenged with customer density issues and costs. He did not want to make things harder by losing the credits. The increased costs would do nothing to help the air quality issues and energy security concerns in Fairbanks. He asked members to support the legislation.

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JOHN COOK, J AND J DEVELOPMENT, FAIRBANKS (via teleconference), spoke in support of HB 87. His company owned and had developed much of the retail land in the Bentley Trust area since about 2006 or 2007. He explained that most of the box stores that came in built off of the

same footprint nationwide. They used gas-fired heaters and air conditioners to heat their stores and were not able to heat with other sources. His company had not been able to add uninterrupted supply. For several years it had hampered his company from developing its property and providing jobs and economic development to Fairbanks. Previous legislatures and administrations had been supportive of the legislation to-date. He urged members to support the bill.

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JOMO STEWART, FAIRBANKS ECONOMIC DEVELOPMENT CORPORATION, FAIRBANKS (via teleconference), spoke in support of the bill and the project. He indicated that the tax credit extension would help with the last portion of state investment. He hoped the state would follow through. The LNG storage project was a follow on to the Cook Inlet Recovery Act of 2010. The bill represented a similar state investment in above-ground natural gas storage for a community in the heart of Alaska that could use the cost of energy assistance as well as help with air quality issues. He hoped the committee would support and help the legislation move forward.

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Co-Chair Wilson CLOSED public testimony.

Co-Chair Wilson indicated the bill would be set aside.

HB 87 was HEARD and HELD in committee for further consideration.

#hb106

HOUSE BILL NO. 106

"An Act relating to school bond debt reimbursement."

[1:57:18 PM](#)

LYNN GATTIS, STAFF, REPRESENTATIVE TAMMIE WILSON, relayed that the bill would simply extend the termination date for the school bond debt reimbursement program with an effective date of July 1, 2025. The bill was a 5-year extension request.

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HEIDI TESHNER, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, OFFICE OF MANAGEMENT AND BUDGET, reviewed the zero fiscal note. She referred to the OMB component number 153. She explained that the note was zero because the bill was simply extending the debt moratorium. The current costs of the program would continue and there would be no additional costs because of no new debts coming online until 2026.

Co-Chair Wilson asked if the bill would affect the debt the state currently had.

Ms. Teshner replied that the bill would extend the payments of the debt the state currently had. For FY 20, \$100 million would be paid out. Going forward, each year the amount would decrease depending on when current projects and associated bonds in the system were closed out.

Representative Josephson asked if the Regional Educational Attendance Area (REAA) programs would be impacted with a reduction in the outlay for programs they had in the queue based on priority.

Ms. Teshner replied that currently the REAA and Small Municipal School District Fund calculation was based on the annual debt service for the program. Representative Josephson was correct that the amount would decrease over the following 5 years, as it had over the previous 5 years, if the moratorium were to be continued. The district REAAs could still apply for the school construction and major maintenance CIP list every year. They would be competing with other projects and would be funded through the non-REA fund.

Representative Josephson commented that there was another avenue for REAAs to receive state revenue that would not be impacted by the legislation.

Ms. Teshner clarified that REAAs would still be able to apply for the major maintenance and school construction funds. Currently they could be funded, depending on their ranking, through the REAA fund. If they were to rank high enough and the appropriations for major maintenance or school construction projects, they could receive a direct appropriation outside of the REAA fund. Funding would be

contingent on the amount of appropriations the Department of Education and Early Development (DEED) received.

Vice-Chair Ortiz asked about the potential impacts of extending the sunset. He was particularly curious about the impacts to borough areas and non-REAA areas.

Co-Chair Wilson answered that the Fairbanks North Star Borough had gone out for bonds. Currently, the community had paid 100 percent for the bonds. It was the same for all municipalities in the previous 5 years.

Vice-Chair Ortiz wondered if any assessment had been done on whether other boroughs would be crippled in advancing other projects with an extension of the sunset.

Co-Chair Wilson commented that there were several people waiting in the queue to testify. She thought his questions would be answered.

Co-Chair Foster commented that regarding the ordering question for the REAAs, the first school on the new school construction list was for \$37 million, and the second school was for \$10 million. If the state fully funded the debt reimbursement, the REAAs would receive \$39 million. He asked if the second school with a cost of only \$10 million would move into first place if only \$20 million was available. He was trying to determine the order in which the funding was appropriated.

Ms. Teshner answered that if the initial project on the list was \$20 million and only \$10 million was available, the division might only fund the design portion of the project saving the remainder for the following year. She thought Tim Merrick could provide further detail about how the division had applied it in the past. She noted that the division would attempt to keep the REAA Fund to fund the REAAs and not to comingle funds.

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TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, explained there was a provision in regulation that allowed the department to fund a phase of a project (if it could be phased) if there were not sufficient funds for the entire project. Otherwise, the department was permitted to fund further down the list.

Co-Chair Foster clarified that a school project could be phased or skipped. He asked at what point the state would move to the major maintenance list.

Mr. Mearig replied that the language in statute for using the funding on the major maintenance list required that priority would be given to school construction projects. He surmised there was not a simple answer without looking at the detail of the scenario. The division would develop scenarios in conjunction with the districts being served at the priority points on the list and at the department's leadership.

Representative Josephson mentioned he had taught in an REAA for 3 years. Shortly after he left, the George Morgan Senior High School burned to the ground and was rebuilt. In such a circumstance, he asked what priority would be given to the community. He wondered how the situation would be handled.

Mr. Mearig responded that the priority list was established through a regular statutory process annually. If there were emergencies that arose, such as the earthquake for the previous year, they would likely be reflected on the list if the districts chose to submit a project for funding. He continued that a school that was completely unhoused would receive a significant amount of points in the matrix. The project would likely rise to the top of the priority list.

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Co-Chair Wilson OPENED Public Testimony.

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JIM ANDERSON, CHIEF FINANCE OFFICER, ANCHORAGE SCHOOL DISTRICT (via teleconference), was in support of continued school bond debt reimbursement for districts to the state. In the past, municipalities and borough incurred school bond debt in accordance with the state's contractual agreement in place at the time the bonds were approved. The agreements allowed the state to maintain education facilities across the cities, boroughs, and local communities. He spoke of the struggles of recession. He urged the committee to continue supporting bond debt reimbursement.

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BRYCE WARD, MAYOR, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS (via teleconference), spoke in support of HB 106. The ramification of not funding the school bond debt reimbursement to the Fairbanks North Star Borough would equal about \$9 million, roughly a 1.1 mill increase for the local tax base. He was speaking in favor of the extension of the program to pay for current debt that was approved by the borough's voting base with the assumption the state would be contributing as part of the requirement for school construction. The borough currently operated under a tax cap. However, debt was exempt from the cap and the bill would result in an increase to the tax base. The borough was proposing a tax increase in its budget in the current year.

Mr. Ward continued that the ability for the state to be able to partner with communities at the local level was significant. The 30 percent match that the local level was paying contributed to the state's ability to continue to provide school services. He reiterated his support for the bill.

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CHEYENNE HEINDEL, MAT-SU BOROUGH, PALMER (via teleconference), spoke in support of HB 106. She explained that without the passage of the bill the borough would have to impose an additional 2 mills on its tax payers. Also, she mentioned that the borough was in need of additional school facilities. She thanked members for their consideration.

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LUCY NELSON, NORTHWEST ARCTIC BOROUGH, KOTZEBUE (via teleconference), spoke in opposition of the bill. She relayed that for FY 20 the Northwest Arctic Borough bond debt balance was \$40.9 million, none of which was reimbursable by the State of Alaska if the FY 20 proposed governor's budget was approved due to the moratorium. Adding years would devastate the borough's finances. The borough would be required to supplant the funding previously committed to be paid by the state. Essential borough services that protected the life, health, and

safety of its residents would have to be reduced or eliminated. The State of Alaska was responsible for funding schools having made a prior commitment to reimburse a portion of school bond debt. Local governments had relied on the state's commitment in good faith. Any change in the state's commitment on school bond debt reimbursement posed a significant financial burden on local communities.

Ms. Nelson continued that the borough understood the state's fiscal shortfall and the need to balance the state budget by placing the moratorium on bond debt. However, the Northwest Arctic Borough was currently operating under a PILT [Payments in lieu of taxes] agreement. At the time the borough negotiated the PILT agreement there was no discussion on the elimination of bond debt reimbursement payments from the state. She clarified that any reduction to the bond debt payment would devastate the borough which was already suffering from high crime and the lack of basic infrastructure.

Mr. Nelson reported that, unlike other rural communities, the Northwest Arctic School District was not an REAA. The borough contributed over \$2 million per year towards the bond repayments. Although the payments were large, the borough was committed to education and its schools. Eliminating the state reimbursement would cost the borough \$4 million in FY 20. She asked legislators to consider the bill carefully as it moved forward. The borough had no new revenue source to make up the huge reduction. The borough had \$14.3 million of bond debt reimburse payments pledged by the state for its school construction projects. The amount did not include the Kivalina school bond debt which was \$12.7 million. She asked the committee to pay the authorized bond debt reimbursement for the agreed upon timeline. The borough had no other choices available to absorb such a huge reduction.

Co-Chair Wilson asked whether she understood that the bill had nothing to do with bond reimbursement for the borough's current bonds taken out prior to 2015.

Ms. Nelson responded in the affirmative.

Representative Josephson thought there was a good argument that the world continued to advance and that the district had increasing needs since 2015. His understanding was that when the moratorium began the world was on notice that they

would be subject to taking care of their own bonds in full. He asked if Ms. Nelson shared the same understanding.

Ms. Nelson asked Representative Josephson to restate his question.

Representative Josephson thought there might be two sets of arguments. First, prior to 2015 and subject to appropriation there was an expectation that if things went well, the state would help. However, after 2015 there should not have been any expectation of help from the state. He asked if he was correct.

Ms. Nelson offered that the borough felt that the state was responsible for funding schools.

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Co-Chair Wilson reiterated that the bond debt reimbursement in the operating budget that was under discussion was not part of the bill. They were bonds taken out prior to 2015 and had a 70 percent state contribution and 30 percent local contribution or a 60 percent state contribution and a 40 percent local contribution. All of the bonds were contingent on an appropriation by the legislature. The bonds prior to 2013 were not a part of the bill under consideration. There had been confusion in the testimony.

Co-Chair Wilson clarified the purpose of the bill. For the previous 5 years no municipality had been able to take out a bond with the understanding that the state would pay. They could put out bonds, but communities would be 100 percent responsible. The bill would extend the same moratorium for 5 years from FY 20 to FY 25. It would have no effect on the appropriation that might or might not happen with the current debt from Alaska's school districts.

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DR. ANNMARIE O'BRIEN, SUPERINTENDENT, NORTHWEST ARCTIC SCHOOL DISTRICT, KOTZEBUE (via teleconference), called in opposition to the bill. She reported that the Northwest

Arctic Borough was under a PILT agreement negotiated in good faith with the Red Dog Mine with an understanding that the moratorium would end in 2020. It would come in time for the borough to support the Kivalina School and to bond for the borough match for the school. She stressed that the borough had no other place to turn to raise funds. The borough felt very strongly about putting an end to the moratorium. She added that the committee should make considerations for boroughs receiving funding under PILT. The Kivalina School was part of the Moore Settlement. The borough had begun the process of working on the school access. The development of the road to the school was currently in process. The opening of the school was long-overdue and had an expected opening date of 2021. However, it was necessary to have the school bond debt reimbursement in place to move forward with the project. She urged members to reject the extension of the moratorium.

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NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, thanked the chair for clarification on the purpose of the bill. He spoke of the importance of school bond debt reimbursement to local governments around the state. In order for the Alaska Municipal League (AML) to approach the bill effectively it was still working to determine municipal impacts. He thought agreement needed to be reached as to whether the state had an obligation to fund the construction and/or maintenance of school facilities. If the answer was yes, then the next question that needed to be answered was to what extent. The Alaska Municipal League believed that the constitution was clear that it was the state's responsibility to establish and maintain a system of public schools, which AML thought extended to the construction of schools. Once his questions were answered, better certainty for school districts and local governments could be provided.

Mr. Andreassen continued that AML's fear was that extending the moratorium would result in minimal investment in major construction and maintenance as districts waited an additional 5 years before being able to address current concerns. The league was aware that deferred maintenance was currently a challenge and extending the moratorium might compound the challenge. It was not to say that some municipalities might make different decisions. Clearly, Fairbanks and others had worked to address current concerns

as best as they could. It did not mean that school districts would not work with local governments to make necessary investments. However, the questions about who was responsible and to what extent needed to be answered.

Mr. Andreassen continued that it would fall to local tax payers to determine whether tax increases at the local level could and should be borne or sustained and whether they could occur presently or whether local tax dollars would be better leveraged against state investment in the future. He asserted that it was clearly in the state's interest to put some stronger guidelines around the program including better control over its debt structure and to ensure that the funding of school construction or maintenance was consistent with available revenues. The Alaska Municipal League would look forward to such a conversation. He offered that where there might be changes to the program, AML would like to be involved and would like to see all parties at the table. He suggested working next on an assessment of needs that had been delayed for the previous 5 years, where there had been progress, and what the potential impact of 5 more years might mean to communities, school districts, and students.

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Representative Knopp noted Mr. Andreassen's comment about the state aligning its debt with the ability to pay for it. He thought it was exactly what the state was doing by extending the moratorium. He asked Mr. Andreassen to comment.

Mr. Andreassen responded that he thought 5 years was a long period without knowing what the current needs looked like at the local level in terms of school districts needing construction funding or major maintenance conducted. He suggested that it was not possible to match need to current revenue without knowing what the needs were. Additionally, he thought it would be wise to consider caps or different matching amounts to shape the requests which would better enable the state to structure the program relative to current revenues.

Representative Knopp asked whether he thought it had been made clear to voters that the bond reimbursement would be subject to appropriations.

Mr. Andreassen replied that for prior committed school bond debt reimbursement it varied by community in terms of the public's understanding. He believed the public made the commitments based on a 17-year history of the state reimbursing school bond debt.

Co-Chair Wilson asked Mr. Andreassen's if he thought it was fairer for the legislature to allow districts to bond without looking at their ability to pay.

Mr. Andreassen replied that he would be better able to evaluate the bill if a needs assessment was available showing which districts currently needed major construction or maintenance. He would then be able to evaluate it against the local tax base ability to pay for or provide match funding. He noted the Northwest Arctic Borough's PILT agreement which was very different than other boroughs. There were different tax bases and tax formats that local governments applied to their ability to bond. He believed that having a more nuanced view of what it looked like at the local level would help everyone involved in understanding what a moratorium might look like for local residents.

Co-Chair Wilson thought the first question should be about a municipality's ability to pay.

Mr. Andreassen responded in the affirmative. He thought it went back to the earlier confusion about whether it extended and paid the reimbursement or whether it was only focused on the moratorium. If it extended the repayment of current bond obligations, AML would support the bill. It was whether the moratorium was extended and whether the analysis was done.

Co-Chair Wilson reiterated that the bill had nothing to do with paying what was currently owed. She brought the bill forward because the state was having difficulty being able to pay what the state presently owed. She opined that it would be unfair to Alaskans to issue more bonds while the state was currently not paying it. She was proud of her school district and community that stepped up to the plate.

Representative Josephson was likely to support the bill. However, he was sad that there had been a lack of resolve since 2015 to put together a comprehensive fiscal plan. It was something he had fought for. He noted voting for new

revenue. He thought the bill was warranted given the circumstance in context.

2:30:25 PM

Co-Chair Wilson CLOSED Public Testimony.

Vice-Chair Ortiz agreed with the previous speaker regarding supporting the bill. He wanted to be clear that by extending the moratorium, the legislature was not extending deferred maintenance needs or deferred construction needs. He did not think the extension would help in the state's ability to provide adequate education and facilities for Alaska's children. He wanted to hear more from Mr. Mearig about future deferred maintenance and school construction projects that might not go forward if the legislature were to extend the moratorium.

Co-Chair Wilson asked Mr. Mearig to respond to Vice-Chair Ortiz's question.

Mr. Mearig asked for clarification.

Vice-Chair Ortiz asked Mr. Mearig if he was aware of any deferred maintenance issues or new school construction plans that might get put on hold if the state was to adopt the moratorium.

Mr. Mearig reported that the state had a program for identifying and collecting school capital needs. The program was an annual opportunity for all districts to submit their requirements to the state. A list for possible FY 20 funding had been compiled and was available to the public. Based on the list, there were plenty of needs from districts around the state. There were many districts that had not participated as well as they could have. There might be other needs not expressed on the list. The only district he had had active conversations with about the reopening of debt had been the Mat-Su Borough School District. They spoke about the timeline to introduce a \$20 million to \$25 million bond package. His advise to them was to get on the list so that the division could see their need. If there was an opportunity for the debt to be reopened, the division would have a chance to work through the eligibility review.

Representative LeBon asked whether the department had a chance to weigh in on language presented to voters on a bond issue when a community bonded for a new school building.

Mr. Mearig responded that there was no longer a requirement in statute to pre-approve voter language for debt service for schools.

Representative LeBon mentioned that in his days on the school board, members went to great lengths to educate voters. Although the intention was for a 70/40 split, it was not a guarantee. The board educated voters that the possibility existed that the district might not receive a 70 percent state reimbursement. There was a risk in any school bond debt program that the community might end up having to service the debt.

[2:36:42 PM](#)

Vice-Chair Ortiz directed a question to Representative LeBon. He suggested that if the state appeared to be an unlikely participant in the bonding program, the bond rates offered to communities might increase. He wondered if communities would have to pay a higher rate for the bonds.

Representative LeBon thought there was a chance that the rate of the bond would be slightly higher. However, they were general obligation bonds which the community had to stand behind, as the bonds carried the highest priority for repayment.

Co-Chair Wilson added that when communities signed on the bottom line, it was for 100 percent of the obligation, whether or not the state contributed.

Representative Carpenter was struck that the state had a \$1.6 billion deficit and Alaska's economy was in recession. He thought it was obvious the state could not support its current spending level. The extension of the moratorium would require entities to look elsewhere other than the state which was not a bad thing while Alaska's economy was struggling and could not afford its current spending.

HB 106 was HEARD and HELD in committee for further consideration.

Co-Chair Wilson reviewed the agenda for the following day.

#

ADJOURNMENT

[2:39:12 PM](#)

The meeting was adjourned at 2:39 p.m.