

HOUSE FINANCE COMMITTEE
March 23, 2023
1:33 p.m.

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CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Neal Foster, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; John Crowther, Deputy Commissioner, Department of Natural Resources; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; Owen Stephens, Commercial Analyst, Department of Revenue.

PRESENT VIA TELECONFERENCE

Anna Grace Jeffries, Primary Prevention Coordinator, Advocates for Victims of Violence, Valdez; Moira Gallagher, Self, Anchorage; Tiffany Mills, Executive Director, Helping Ourselves Prevent Emergencies (HOPE), Prince of Wales; Jena Crafton, Self, Eagle River; Carri Crater, Self, Anchorage; Maria Legend, Self, Anchorage; Tom Crafton, Self, Eagle

River; Amanda Faulkner, Alaska Association on Developmental Disabilities, Kenai; Jon Erickson, City Manager, Yakutat; Kathleen Fitzgerald, Self, Soldotna; John Solomon, CEO, Alaska Behavioral Health Association, Kotzebue; Tom Morphet, Self, Haines; Dawn Waldal-Anderson, Mayor, Whale Pass, Prince of Wales; John Sonin, Civilized Humanity, Douglas; Emily Carroll, Self, Anchorage; Sue Libenson, Self, Haines; Eric Gurley, Executive Director, ACCESS Alaska Inc., Anchorage; Rick Nelson, Self, Anchorage.

SUMMARY

HB 39 APPROP: OPERATING BUDGET/LOANS/FUND; SUPP

HB 39 was HEARD and HELD in committee for further consideration.

HB 41 APPROP: MENTAL HEALTH BUDGET

HB 41 was HEARD and HELD in committee for further consideration.

PRESENTATION: SPRING REVENUE FORECAST

PRESENTATION: WILLOW PROJECT UPDATE AND FISCAL ANALYSIS

Co-Chair Johnson reviewed the meeting agenda. The committee would hear two presentations including the spring revenue forecast by the Department of Revenue (DOR) and the Department of Natural Resources (DNR) and an update and fiscal analysis of the Willow project by DOR and DNR. There would be public testimony on the operating and mental health budgets after the presentations.

^PRESENTATION: SPRING REVENUE FORECAST

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Co-Chair Johnson asked committee members to hold questions until after the meeting.

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "Spring 2023 Forecast Presentation: House Finance Committee," dated March 22, 2023 (copy on file). He stated he would focus on a few key slides in the interest of time. He began with key assumptions behind the

spring forecast on slide 5. He highlighted that the spring forecast was one scenario within a range of uncertainty and potential outcomes. Some of the market volatility in the financial markets over the past couple of weeks was another source of uncertainty.

Mr. Stickel continued to review slide 5 and explained that DOR did not change its outlook for investment returns for the fiscal year. Investment forecasts were based on a 7 percent return for FY 23 and 7.05 percent for FY 24 and beyond. The federal revenue forecast had been updated to incorporate all known federal revenues as of March. There were some increases to expected federal revenues related to expected infrastructure funds and increased funding for agency operations. The oil and gas forecast was based on an estimated oil price of \$85.25 per barrel for FY 23. He explained it was an average price that incorporated higher prices that had already occurred in the current fiscal year and an assumption that oil prices would average in the low \$70s per barrel for the remainder of the fiscal year. The oil price per barrel forecast for FY 24 was \$73.00. The non-petroleum assumptions were largely unchanged from the fall forecast. The forecast assumed continued economic growth (any economic slowdown was expected to be short lived), 90 percent of capacity for the 2023 cruise season, and minerals prices based on futures markets. He stated that most of the changes between the fall and spring forecasts were related to oil and gas.

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Mr. Stickel advanced to slide 9 titled "Unrestricted Revenue Forecast: FY 2022 and Changes to Two-Year Outlook." The forecast for Alaska North Slope (ANS) average oil prices had been decreased by \$3.20 per barrel for FY 23 and by \$8 per barrel for FY 24. He stated the decrease was the primary reason for the reduction in the revenue forecast. Unrestricted general fund (UGF) revenue was reduced by \$246 million for FY 23 and \$679 million for FY 24. There was very little change in expectation for non-petroleum revenues. The Permanent Fund transfer was one of the largest sources of UGF revenue. He stated that the expectation for the transfer for FY 23 and FY 24 had not changed because of the way the transfer was calculated on the ending value of the first five of the past six years.

Mr. Stickel turned to slide 10 titled "Total Revenue Forecast: FY 2022 to FY 2024 Totals." The DOR Revenue Sources Book included four categories of revenue that aligned with how revenues were reported in the budget. The UGF category included revenues available for general appropriation. Designated general funds (DGF) were revenues technically available for appropriation but were customarily appropriated for a specific purpose. For example, a share of alcohol tax revenues that were customarily appropriated to alcohol and drug abuse treatment and prevention purposes. The category "other restricted revenues" was truly dedicated to a specific use. He highlighted examples including debt covenants, federal law provisions, and constitutional restrictions (such as a portion of state royalty revenue constitutionally dedicated to the Permanent Fund). The federal revenue category was considered to be restricted because there were federal provisions specifying how the funds could be used. Total state revenue was \$8.6 billion in FY 22, which was a bit lower than in a typical year because investments showed a net negative in FY 22 due to a market downturn. The forecast was \$16.4 billion in total state revenue in FY 23 and \$14.9 billion in FY 24.

Mr. Stickel moved to slide 11 titled "Unrestricted Revenue Forecast: FY 2022 to FY 2024 Totals." He highlighted that investment and petroleum revenue were the two primary sources of UGF revenue. Each of the two sources generated over \$3 billion in FY 22. The department was forecasting investment revenues of \$3.4 billion in FY 23 and \$3.6 billion in FY 24 and petroleum revenues of \$3.1 billion in FY 23 and \$2.2 billion in FY 24.

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Mr. Stickel looked at a breakout of unrestricted investment revenue on slide 12. The Permanent Fund transfer was the largest portion. Additionally, there was a small portion primarily composed of earnings on the state general fund balances. There were some losses on the general fund balances in FY 22 due to some of the interest rate volatility, but DOR was anticipating a return to positive amounts in FY 23 and FY 24.

Mr. Stickel turned to slide 14 titled "Unrestricted Petroleum Revenue: FY 2022 to FY 2024 Totals." The slide included four different sources. State property tax was a

fairly stable revenue source generating a little over \$120 million per year. Corporate income tax applied to most but not all of the oil and gas corporations doing business in the state and DOR was expecting it to generate \$270 million in FY 23 and \$300 million in FY 24. The oil and gas production tax (the state's severance tax on oil and gas) was projected to generate \$1.5 billion in FY 23 and slightly over \$700 million in FY 24. For state royalties including [mineral] bonuses, rents, and interest, DOR was forecasting \$1.2 billion in FY 23 and slightly over \$1 billion in FY 24. He noted the amounts on slide 14 were limited to the UGF portion. He explained there was a significant municipal share for property tax and a significant restricted share of royalties going to the Permanent Fund and school fund.

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Mr. Stickel turned to slide 17 showing the change in the long-term petroleum price forecast from fall 2022 to spring 2023. He noted it was the primary reason for the reduction in the revenue forecast from fall to spring. The department used the futures market to guide its oil price forecast. The spring forecast was based on the median futures prices from the preceding week ending March 17, which was compared to the fall forecast generated in early December. There was a \$3.20 per barrel reduction for the FY 23 forecast, an \$8.00 per barrel reduction for FY 24, and reductions in the outyears as well.

Mr. Stickel advanced to slide 19 showing the FY 24 UGF revenue forecast before accounting for the Permanent Fund transfer of \$2.7 billion and a forecast price of \$73 per barrel oil. He explained that each additional dollar above the forecasted \$73 per barrel equated to about \$65 million to \$70 million UGF. He detailed that each dollar below the \$73 per barrel forecast equated to about \$50 million UGF.

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Representative Stapp asked about slides showing stable investment returns of 7 percent for FY 23 and 7.05 percent for FY 24. He noted that in January the Alaska Permanent Fund Corporation (APFC) was reporting a 3.38 percent return year to date (YTD), which was below the rate of inflation. He remarked that the fiscal year would end in June, and he

wondered if there would be a massive investment return to make a correction to the APFC projection.

Mr. Stickel answered that the 7 percent and 7.05 percent reflected nominal returns (prior to accounting for inflation). The department worked with APFC to help derive the investment forecasts. He elaborated that APFC looked at the returns YTD in addition to the full year return assumption and felt the 7 percent annual return was still on track; therefore, APFC did not want to make any changes to the forecast.

Representative Galvin asked if DOR conducted an estimate of cost to the state and how much the state may forego if the state did not impose a ringfence on production tax over the Willow development.

Mr. Stickel answered that the Willow project was included in the revenue forecast on a risked basis. He noted the topic would be discussed in further detail in the next presentation.

Representative Galvin wondered if a change was made whether it would enable the state to shift the impact to later years in order for Willow to contribute to the state now as opposed to later.

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Mr. Stickel could not speak to any particular proposal. He explained it would depend on how a proposal was constructed. He noted the department would be happy to analyze it. He addressed the Willow project in particular and explained that the negative impacts to the state during construction came out to about \$360 million cumulatively over the first five years of construction. The official forecast was produced on a risked basis and only included a portion of Willow. He stated it would give an order of magnitude estimate of what may be included in the official forecast.

Co-Chair Johnson asked Mr. Stickel to repeat the information.

Mr. Stickel replied there were two ways of looking at the Willow project. The first was in the official revenue forecast that used confidential taxpayer information and

company specific modeling. The department could not share the details with the public or the committee due to taxpayer confidentiality concerns. The Willow specific analysis that would be presented later in the meeting was based entirely on publicly available information. Over the first five years of the project beginning in 2024, the total net impact to the state was about \$360 million, which was offset by an impact of about \$1.3 billion over the following five years. The first ten years of the life of the project were projected to bring close to \$1 billion net positive to the state.

Co-Chair Johnson asked if it was \$360 million per year.

Mr. Stickel clarified the number was \$360 million total. He added that DOR had published a white paper at the end of February that included some larger estimated negative impacts. The department made changes to its assumptions regarding how the lease expenditures relate to the minimum tax. The minimum tax significantly limited the exposure to the state and the benefit to the company from the lease expenditures.

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Representative Galvin stated her understanding there was another project very nearby with a different company that had to pay taxes because they were not yet in production. She stated her understanding that the state would still get the revenue [from the Willow project], but not until later. She thought it was the case because of the way the oil tax laws were presently written.

Mr. Stickel answered that there were some nuances around how the lease expenditures translate into state revenue and company benefit. He stated it depended on whether a company was paying above the minimum tax, under the minimum tax, or at a net operating loss. There were several slides in the upcoming presentation that would address the question.

Representative Hannan looked at slide 19 and referenced Mr. Stickel's statement that every dollar above \$73 per barrel was worth \$65 million to the state. She asked for the second number Mr. Stickel had provided.

Mr. Stickel replied that every dollar below \$73 per barrel below was about \$50 million.

Representative Hannan asked why a dollar below the \$73 per barrel projection was so much less than a dollar above the projection.

Mr. Stickel answered that the state's oil tax system was progressive in nature and included the gross minimum tax and net tax. The difference had to do with a crossover point between the two.

Representative Hannan pointed to the severance tax decrease on slide 14. She asked what was included in the severance tax and why it dropped 50 percent from FY 23 to FY 24.

Mr. Stickel responded that the production tax was a progressive tax system. He detailed that DOR was estimating a significant drop in oil prices from \$85.25 to \$73 per barrel from FY 23 to FY 24. The department was also anticipating an increase in company spending.

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Representative Josephson remarked that Mr. Stickel had brought some good news in one way. He referenced Mr. Stickel's statement that the loss [to the state]/tax passed by the legislature was only \$360 million for five years. He asked what the number had been before the recalculation.

Mr. Stickel believed the negative was over \$1 billion. He relayed that his colleague would provide the information in the next presentation.

Representative Josephson asked if it was related to the 4 percent gross tax floor and not to a reduction in the cost of capital expenditures.

Mr. Stickel agreed. He relayed that when DOR compiled its Willow lifecycle analysis together in February it had made a simplifying assumption that the producer would receive the 35 percent value of all lease expenditures and that the minimum tax floor would not limit the value. He explained that the assumption was generally correct for a smaller new project, but it was no longer a correct assumption for extremely large projects such as Willow. He stated that the minimum tax floor significantly reduced the value of the lease expenditures to the company. Another change the department made was incorporating the spring revenue

forecast, which had a lower oil price. He explained that under the change a company reached the minimum tax floor quicker than under the fall price forecast.

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Co-Chair Johnson wanted to segue into the Willow presentation shortly.

Representative Josephson asked if the department's new findings about the net operating losses or carryforward lease expenditures would be contentious and disputed. Alternatively, he asked if DOR's confidence level was high.

Mr. Stickel answered that DOR was continually improving its analysis and its confidence in the numbers was improving. He stated that the current analysis was a new and improved version of the information released by DOR in February.

Representative Ortiz turned to slide 17 pertaining to changes to the long-term oil price forecast. He observed that projections going out to 2032 remained below \$80 per barrel. He asked what went into the projection.

Mr. Stickel replied that DOR used the futures market outlook for as many years as available, which was through the end of FY 29 in the current case. Following that timeframe, DOR applied an assumption where prices would increase with inflation. The chart on slide 17 included the assumption that prices would grow with inflation beginning in 2030.

Co-Chair Johnson thanked Mr. Stickel for the presentation.

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^PRESENTATION: WILLOW PROJECT UPDATE AND FISCAL ANALYSIS

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JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, stated that the project represented a new era for Alaska from his perspective and from the perspective of

the Department of Natural Resources (DNR) and the administration. He elaborated that the size, scope of investment, potential production, and location were all groundbreaking and set the stage for production and success on the North Slope in a way that had not been seen since the startup of the fields and bringing the Kuparuk River Unit into production or perhaps going back to Prudhoe Bay. He highlighted that the Pikka Unit Nanushuk development in the National Petroleum Reserve-Alaska (NPRa) and on state lands was a new era for Alaska. He relayed that the projects were tremendously complex, massive, and not guaranteed. He noted it was fair to say that the Willow project had a bit of fragility at the moment due to ongoing litigation. He expounded that a little over one year ago litigation had successfully paused and required additional revisions to the project. Additionally, a final investment decision (FID) had not yet been taken by ConocoPhillips. The company had not announced when it may make the decision. The successful resolution to litigation was part of the decision in addition to other significant considerations.

Mr. Crowther provided a PowerPoint presentation titled "Willow Project Update: House Finance Committee," dated March 23, 2023 (copy on file). He began on slide 3 showing a map of development on the North Slope and the Willow project location. The colors on the slide indicated the ownership of the land. The Willow project was shown on the left side of the slide in the NPRa located on federal land. The colors on the slide indicated land ownership: yellow was state owned land, green was federally owned (also including the Bear Tooth Unit), and other colors corresponded to different ownership types for different units.

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Mr. Crowther discussed ownership/royalty interest with a map on slide 4. He explained that on state lands the state received 100 percent royalty interest. The variable royalty rates and leases affect the rates coming to the state for different development. Areas shown in red were owned by the federal government. The coastal plain of the Alaska National Wildlife Refuge (ANWR) was located to the east and the federally owned NPRa was to the west. The Willow project was located within the NPRa; therefore, the royalty interest was owned by the federal government. However, the

federal government, in its statutory provisions enabling development, leasing, and activity in the NPRA, had dedicated 50 percent of the revenues to the state coming to the NPRA impact mitigation fund. He noted that royalty revenues from Willow would follow the process.

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Mr. Crowther turned to slide 5 showing a map to provide context about other investments ConocoPhillips was making on the North Slope. He pointed to the left side of the map showing the exploration wells West Willow 1 and Bear 1. He detailed that ConocoPhillips was attempting to identify new prospects to potentially develop. The Greater Mooses Tooth (GMT) development was currently in production and located next to the Bear Tooth development. There were also some significant developments on state lands including the Nuna project, the Coyote project located in the Kuparuk River Unit, and the Narwhal development (already online) located in the Colville River Unit (often referred to as Alpine). He relayed that ConocoPhillips had been very active and investing a tremendous amount in all of the projects, which led to production and ultimately revenue and economic activity for Alaska.

Mr. Crowther advanced to a map on slide 6 showing details of the Willow project. He pointed to three pads located in the Bear Tooth unit (BT 1, 2, and 3 in a north/south orientation) that had been approved by the record of decision by the Department of Interior (DOI). Additionally, important infrastructure had been approved in the location as well including an airstrip, facilities, and a central processing facility allowing the oil produced to be appropriately managed and processed prior to flowing to a new pipeline flowing to the Kuparuk River unit (KRU) (indicated in green).

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Mr. Crowther advanced to slide 7 showing the permitting history for the Willow project. In 2013, the integrated activity plan for the entire NPRA was approved by DOI, which set the terms for development on a large scale. At the planning phase the IAP stepped into the specific review for the Willow project beginning in 2017/2018. The original record of decision was issued in 2020, which included some changes that ConocoPhillips initiated in response to

community concerns to improve the project and reduce impact. Due to a lawsuit, the 2020 approval was paused by the courts and sent back to DOI for additional review and revision. The review and revision had just completed, and the second supplemental environmental impact statement (EIS) had finished in February 2023 with the record of decision following in March. He relayed that lawsuits had immediately been filed. The state had filed to intervene in the litigation and opposed preliminary injunctions and efforts to pause the project while litigation proceeds.

Mr. Crowther discussed the development timeline on slide 7. The initial ice construction (non-ground disturbing, non-permanent activity) was underway; however, significant ground disturbing construction activity was on hold by the operator until there was resolution of the initial litigation questions. Project permitting was continuing and included things like state pipeline rights of way that were based on the record of decision. He noted the approvals and permitting were proceeding on schedule. He reiterated his earlier statement that FID had not yet been announced by ConocoPhillips even though receiving the record of decision was a very important step. He relayed that ConocoPhillips would take litigation, logistics, timing, and fiscal policy prior reaching FID. He relayed that construction could begin as soon as possible (possibly in the current year proceeding into the 2027 to 2029 timeframe), assuming litigation had a favorable outcome.

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Representative Galvin asked if there had already been a plan to start the project that had been prevented by the lawsuits. She referenced a bullet point about ice road construction in the presentation. She asked if something was happening or if the state was holding its breath and waiting.

Mr. Crowther replied that the current status was very similar to what it had been in early 2021. He detailed that when the record of decision had been issued by the DOI at the end of 2020 initial ice work and field execution had begun. He elaborated that the initial lawsuits had been filed and ultimately a preliminary injunction had been granted, which paused and limited the work. The current position was similar in that the preparation for work was ongoing, but the state would not know whether the work

could proceed until the lawsuit was resolved. The review that had been conducted as a result of the first lawsuit was comprehensive and hopefully there would be a different result in the [recent] litigation.

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DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "Willow Fiscal Analysis: House Finance Committee," dated March 23, 2023 (copy on file). He noted the presentation was broken into two parts. The first section was aimed at helping individuals understand the nuances of the production tax, which was important for understanding the specific impacts of how Willow and the associated lease expenditures would impact state revenue. The second part of the presentation included detailed fiscal modeling for the Willow project.

Mr. Stickel relayed that the Department of Revenue (DOR) had originally released a white paper on the Willow fiscal analysis in late February, which had estimated a greater than \$1 billion negative impact to the state during the construction period. The department had updated the analysis to better account how the gross minimum tax floor would impact how lease expenditures apply in the production tax. Additionally, DOR had incorporated its spring revenue forecast. The updated analysis estimated a \$360 million total negative impact to the state during construction and an estimated \$1 billion net positive over the first ten years of the project.

Mr. Stickel noted that slide 2 included a list of oil and gas acronyms. He moved to a disclaimer on slide 3. He explained that DOR had taken a complex tax system and complex project and made assumptions to break them down into understandable pieces. He underscored that he and his colleagues were economists, not auditors and any of the statements they made about the tax system were not an official tax interpretation. Additionally, DOR's Willow analysis was based entirely on publicly available information in order to honor taxpayer confidentiality. He

noted that taxpayer specific information would be slightly different than the information shown in the presentation.

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Co-Chair Johnson asked to keep the questions limited due to the limited timeframe.

Representative Stapp read the first bullet point on slide 3:

Alaska's severance tax is one of the most complex in the world and portions are subject to interpretation and dispute.

Representative Stapp stated that as the committee learned about the complicated process, he realized that the people who were much smarter than him generally came out ahead. He remarked, "I'm curious as we go through this process, who the actual smarter people are going to be."

Mr. Stickel turned to slide 5 and discussed oil and gas revenue sources. The state received revenue from royalties, corporate income taxes, property tax, and production tax. The royalty owner of the Willow field was the federal government with a 16.67 percent royalty. He explained that half of the royalty was shared with the state for the benefit of the impacted communities and was essentially a passthrough revenue. The department assumed the corporate income tax would apply to the operator at Willow. He explained that the property tax of 20 mills would apply [and would be paid to the state] and a municipal property tax was allowed as a credit against the state tax. He would provide details on the production tax in the upcoming slides.

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Mr. Stickel moved to slide 6 pertaining to the overall fiscal system order of operations. He explained that the landowner received the royalty off the top. He detailed that royalties and property tax were both allowed as deductions against production tax and both taxes became deductions against corporate income tax. He noted that the state corporate income tax was allowed as an offset to the federal corporate income tax.

Mr. Stickel relayed that the next set of slides beginning with slide 7 were a refresher of the order of operations presentation given by DOR earlier in the session. He noted that the slide had been updated to reflect the spring revenue forecast and presented an estimate of the aggregate calculation in North Slope oil taxes. The refresher was meant to provide context to how the Willow field impacted production taxes. The slide used the DOR forecast of \$73 per barrel for FY 24 and the average daily production of 496,000 barrels per day and looked at the \$36 million per day or \$13 billion per year of the value of oil and how it translated into the tax calculation.

Mr. Stickel turned to slide 8 and discussed the first step of the production tax calculation, which was to subtract royalty barrels. The average royalty rate on the state was slightly over 12.5 percent. He highlighted that 12.5 percent and 16.67 percent were the most common rates. He explained that the subtraction of royalty barrels arrived at an estimated taxable value of \$11.5 billion for FY 24 for all North Slope oil. The next step was to subtract transportation costs, which were pipeline tariffs for feeder pipelines to the Trans-Alaska Pipeline System (TAPS) and marine shipping costs (slide 9). The transportation costs averaged out to an estimated \$9.61 per barrel or about \$1.5 billion in FY 24, resulting in a gross value at point of production (GVPP) of about \$10 billion for the fiscal year.

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Mr. Stickel turned to slide 10 and explained that lease expenditures were applied against the GVPP. There were two categories of lease expenditures. The allowable lease expenditures were total spending (anything allowable under the tax code) including operating expenditures and capital expenditures (capital expenditures were allowed to be deducted in the year incurred). Deductible lease expenditures represented the portion of the allowable lease expenditures up to the GVPP in the year. He elaborated that a company was allowed to use its lease expenditures to offset any gross value if it had additional lease expenditures (if a company spent more than it made from selling its oil). He explained that the situation could occur if a company was making major investments when oil prices were low; it also applied to companies that were not yet producing. He expounded that if excess lease

expenditures became a carryforward lease expenditure, the carryforwards were ringfenced and could be used to offset a future tax liability contingent on production from the area where lease expenditures were incurred. In FY 24, the department was estimating \$4.6 billion of lease expenditures deducted in the tax calculation and an additional \$914 million of lease expenditures that became carryforwards. The carryforwards were primarily for the companies doing exploration and development (new fields not yet in production).

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Mr. Stickel advanced to production tax value (PTV) portion of the equation on slide 11. The PTV was the tax base for the net portion of the tax system. He detailed that PTV was calculated as GVPP minus deductible lease expenditures. There was an estimated PTV of \$5.4 billion for FY 24.

Representative Josephson asked if the GVPP had relevance to the royalty and tax calculations.

Mr. Stickel responded, "That is roughly correct."

Mr. Stickel moved to slides 12 and 13 and relayed that the net tax and gross minimum tax floor portion of the production tax calculation were done side by side. As long as oil prices averaged \$25 or more for the calendar year, the gross minimum tax floor was a 4 percent gross tax rate. He elaborated that based on the \$10 billion in gross value and the 4 percent gross tax rate, the minimum tax floor for FY 24 was estimated at about \$400 million. The net tax started with the production tax value and allowed companies to subtract the gross value reduction (GVR). He explained that the GVR was a benefit that applied for new fields allowing a company to deduct a portion of the gross value when calculating its production tax. The 35 percent nominal tax rate was applied to the production tax value after subtracting the GVR resulting in a net tax calculation of \$1.85 billion before accounting for tax credits.

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Mr. Stickel continued to discuss the production tax calculation on slide 14. He explained that there were two tax credits that applied after the higher of the net tax or minimum tax had been taken. The first was a sliding scale per taxable barrel credit (up to \$8 per barrel) for any oil that did not qualify for the GVR. The second was a \$5 per taxable barrel credit for any oil eligible for the GVR. The \$5 per barrel credit could be used to reduce tax liability below the minimum tax for producers that did not take any sliding scale credits. The department was expecting per taxable barrel credits would amount to a little over \$1.1 billion in FY 24, resulting in a total tax after credits of about \$713 million. There were several other items and adjustments that resulted in the \$741.8 million production tax paid (as shown in the Revenue Sources Book official forecast).

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Representative Galvin referenced the carryforward expenditures. She asked if the company Santos would have to carry its costs forward in relation to the Pikka field, whereas ConocoPhillips would be able to immediately deduct its costs for Willow.

Mr. Stickel responded that any company in a net operating loss situation would earn carryforward lease expenditures that could be used to offset a future tax liability. Any company that had sufficient gross value could apply the lease expenditures in the year incurred. He explained that for a company like ConocoPhillips, it depended on the oil price, the company's other production, and how much the company was spending in a given year.

Representative Galvin provided a scenario where they [ConocoPhillips] were in the black because they were already in production in the particular area. She asked for verification there was a difference in how they were treated as opposed to a new company like Santos.

Mr. Stickel stated that the next set of slides showed how it would apply to a current producer like ConocoPhillips. He confirmed that a new company would not have existing production; therefore, any lease expenditures would become a carryforward.

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Mr. Stickel turned to slide 16 titled "Example: Company with 200,000 Barrels Per Day Taxable Production." He noted the example was similar to recent levels for a company like ConocoPhillips. The example assumed aggregate North Slope lease expenditures and demonstrated what a company like ConocoPhillips would pay without relying on any confidential information. The example showed a company with \$2.1 billion of lease expenditures, \$4.6 billion GVR, a production tax value of \$2.5 billion, and tax after credits of \$287 million in FY 24.

Mr. Stickel turned to an example on slide 17 where an additional \$200 million in capital expenditure was made (a smaller development project). The scenario would increase the company's lease expenditures by \$200 million to \$2.3 billion, reduce its production tax value by \$200 million to \$2.3 billion, and the company would still be able to apply the full value of the per taxable barrel credits because it would be above the minimum tax before and after the investment. The extra \$200 million investment would reduce the company's taxes by \$70 million (the full 35 percent nominal tax rate).

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Mr. Stickel looked at slide 18 showing a scenario where the company spent \$1 billion in additional capital expenditures. Under the scenario, the gross minimum tax floor limited the company's ability to apply sliding scale per taxable barrel credits and eliminated the company's ability to use the \$5 per barrel credit for GVR eligible oil. There was a significant reduction in the amount of credits the company was allowed to use because of the minimum tax floor. Under the scenario, the company had a tax after credits of \$186 million, a reduction of about \$100 million or 10 percent of the value of the lease expenditure. He summarized that when the company made a \$200 million incremental expenditure, it received a 35 percent benefit, whereas a \$1 billion incremental expenditure resulted in a 10 percent benefit.

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Mr. Stickel looked at slide 19 with a scenario of a \$2 billion additional capital expenditure. He noted the department was estimating a peak spend (in one of the

years) on the Willow project of just over \$2 billion. Under the scenario, the company's production tax value was only \$515 million, and the company would pay underneath the \$186 million tax floor even before applying any tax credits. He expounded that the company would not be allowed to apply any sliding scale credits because they could not be used to go below the minimum tax. He explained that because the company would not be using any sliding scale credits, it would be able to use the GVR \$5 per barrel credits to go slightly below the minimum tax; therefore, its tax liability would be \$160 million. Out of the \$2 billion of additional expenditures, the company reduced its taxes by \$127 million or about 6 percent.

Representative Stapp asked if a company could write off an operating loss against its corporate income tax in Alaska.

Mr. Stickel answered it was a more indirect relationship. The net production tax factored into a company's worldwide income for corporate income tax. He elaborated that the worldwide income got apportioned to Alaska. He stated there was a small feed through to the state corporate income tax.

Representative Hannan observed that the bigger the investment the less percentage of benefit. She asked if there was another incentive to not invest as much as possible on an annual basis. She remarked that \$200 million versus \$2 billion was a huge difference. She asked if the primary decision about how much to invest was about the percentage of tax benefit or by other factors in terms of how quickly a company wanted to bring a project online, the number of employees, or the price of oil globally over the decade.

Mr. Stickel answered there were a variety of factors companies looked at. The purpose of the examples was to illustrate how the existing tax system worked and to highlight that the impact of the investments on the state was very uncertain depending on the price of oil and how much a given producer chose to invest. He explained it was uncertain for the state in terms of fiscal planning and uncertain to the producer in terms of its economic decision making.

[2:39:24 PM](#)

Mr. Stickel turned to a final example on slide 20 showing a scenario with an additional \$3 billion in capital expenditure. Under the scenario, the company brought its production tax value to zero and earned a carryforward for additional lease expenditures. There was \$484 million in left over lease expenditures after the production tax value was brought to zero. The \$484 million became a carryforward for the producer that could be used to offset a future tax liability contingent on production from the field where the loss was earned. The carryforward was ringfenced by lease of property. The company would pay the same \$160 million tax with a \$3 billion expenditure as it did with the \$2 billion expenditure example, giving it a 4 percent benefit of spending in the year incurred. When accounting for the potential use of the carryforward, the benefit could be up to 10 percent.

Mr. Stickel turned to slide 21 showing takeaways from the examples. He stated it was important in terms of understanding the Willow analysis. He reviewed the slide:

- If company is above minimum tax floor, modest increases in investment benefit at 35% marginal tax rate.
- Once company reaches minimum tax floor, the benefit of increased investment is much lower.
- Once company reaches a net operating loss, some benefit of increased investment returns, in the form of a carried-forward loss.
- Benefit of spending will also vary based on oil prices.
- A low oil price scenario is very similar to a high investment scenario.
- The changing benefits are a source of uncertainty to company making investment decisions, and to state revenue forecasting.
- This analysis is relevant to discussions of Willow because the field would require massive additional investment.

[2:42:33 PM](#)

OWEN STEPHENS, COMMERCIAL ANALYST, DEPARTMENT OF REVENUE, began on slide 25 titled "Typical Oil Field Development." He stated that finding and developing an oil field was very expensive and time consuming. He noted it depended on the

size and complexity of the field. He relayed that a field the size of Willow would take billions of dollars to develop.

Mr. Stephens turned to an analysis description on slide 26. He stated the goal was to demonstrate the fiscal impact of the Willow field development. He explained it was a single case analysis using public data to model a complex project with many uncertainties. The analysis used public data only, primarily from the Willow federal supplemental environmental impact statement that came out in February and the just released DOR spring forecast. He noted that the use of confidential data could materially change the analysis.

[2:44:03 PM](#)

Mr. Stephens advanced to slide 27 and discussed four component updates from the February 2023 analysis:

1. Spring 2023 forecast for oil prices and transportation costs
 - Previously used Fall 2022 forecast
2. Producer receives benefit of lease expenditure deductions only as far as minimum tax floor
 - Previously producer received benefit of all lease expenditure deductions.
3. Zero impact on State Corporate Income Tax prior to production
 - Previously included negative impact on state corporate income
4. North Slope-wide state benefit from pipeline tariff now also includes feeder pipelines (Alpine and Kuparuk)
 - Previously only included Trans-Alaska Pipeline (TAPS)

Mr. Stephens reviewed the results of the changes in terms of 10-year state revenue. The white paper modeled about negative \$500 million. He relayed DOR was forecasting

positive \$900 million over 10 years. Previously, DOR had projected about \$5.4 billion in 30-year revenue to the state, but the number had increased to \$6.3 billion. The department had initially projected the project would go cashflow positive in 2035, but the projection had been changed to 2030. He turned to slide 28 and briefly addressed an oil production profile supplied by ConocoPhillips. The profile showed total production of 613 million barrels peaking in FY 30 with production through FY 53. He stated it represented a pretty normal oil production profile. Slide 29 titled "Lease Expenditures" showed a total projected capital expenditure of \$10.3 billion and operating expenditure of \$6.1 billion.

[2:46:21 PM](#)

Mr. Stephens turned to slide 31 and discussed transportation (netback) costs. Transportation costs included a combination of several different items including marine transportation. The department expected additional oil flow through the pipelines should reduce the tariffs for TAPS and feeder pipelines. The department had modeled the impact on the North Slope in terms of production tax and royalty. A chart on slide 31 showed the total benefit to the state and the transportation cost number for Willow.

[2:47:33 PM](#)

Mr. Stephens moved to fiscal assumptions on slide 32. The department assumed current state and federal tax laws, GVR at 20 percent, and state corporate income tax at 4.25 percent (the rate DOR used for a typical North Slope producer). The department would be better able to model the interaction of lease expenditures with the minimum tax floor by modeling a hypothetical taxpayer. The fiscal assumptions included 200,000 barrels per day after royalty and lease expenditures of \$24.50 per barrel as a typical value for currently producing North Slope fields. He noted that the use of taxpayer confidential data could materially change the analysis.

[2:48:39 PM](#)

Mr. Stephens turned to revenue categories on slide 33. He reminded committee members that royalty was shared 50/50 between the impacted communities and the federal government

and property tax was shared between the North Slope Borough and the state with just over 10 percent going to the state.

Mr. Stephens moved to slide 34 showing forecasted annual revenues by category. He relayed that revenue of all types remained strong until the end of the 30-year analysis period, particularly for royalty and production tax. He highlighted that all revenues started high and gradually declined in line with production numbers.

[2:49:49 PM](#)

Mr. Stephens addressed the first ten years of state revenue on slide 35 (before and just after the start of production). He noted it was the most important slide for the state. The columns on the chart showed state revenue. He explained that the dashed line indicated state revenue if the producer were to remain above the minimum tax floor. He noted that 2024 was the only pre-production year with lease expenditures low enough to stay above the minimum tax floor. He detailed that as the forecast oil price decreased, there was a point in 2028 where the producer was already at the minimum tax floor, with no additional benefit from Willow lease deductions. The total pre-production impact on state revenue was \$360 million (less than one-fifth of the amount if the minimum tax floor was not a concern). He reported that the first five years of the analysis showed negative \$360 million going to positive \$900 million after 10 years. He elaborated that if the producer was able to take the benefit of lease expenditures the number would be negative \$1.9 billion, recovering to negative \$800 million after 10 years. He noted the number in the whitepaper had been negative \$2.1 billion after five years. The state would be looking at less than 20 percent of the number it would have otherwise had if all lease expenditures could be deducted.

[2:52:00 PM](#)

Mr. Stephens advanced to annual and cumulative cash flow (grouping revenues by recipients) on slide 36. The state would see breakeven state revenue in 2030. The projection showed a 30-year cumulative revenue of \$6.3 billion. Additionally, the department expected billions of cumulative revenue for all stakeholders including local communities on the North Slope, the federal government, and the producer. He discussed the NPV on slide 37, which

measured the discounted value of future cashflows. He elaborated that NPV represented the total revenue including the time value of money. He explained that \$1 at present was worth more than \$1 next year. The department used a 10 percent discount rate for the analysis, which meant \$1 in a year's time was worth the same as 90 cents at present. He noted the 10 percent was pretty commonly used.

Mr. Stephens turned to slide 38 titled "Uncertainty." He relayed there was significant uncertainty in many of the assumptions, elevated above typical levels. There was uncertainty in project risk and timing, costs, and oil price. Additionally, in the pre-production period oil production rates and reserves were still relatively uncertain. He explained that because of the analysis and the way things tied in with lease expenditures, there was additional product uncertainty in terms of state revenue due to the uncertainty about producers' other fields on the North Slope.

[2:53:59 PM](#)

Mr. Stephens concluded his presentation.

Representative Stapp referred to his remark earlier in the meeting that smart people win when something is complicated. He considered a scenario where ConocoPhillips wanted to maximize its shareholder revenue. He asked about the worst case scenario for state revenues. He asked how a company could maximize its tax liability and pay as little to the state as possible.

Mr. Stickel answered the worst case scenario for everyone involved was making significant investment in the Willow project and the project not coming to fruition. He stated that everyone hoped that did not occur.

Mr. Stickel highlighted there was significant risk around the project.

[2:55:49 PM](#)

Representative Galvin looked at slide 35 showing state revenue in the first ten years. She surmised that if oil prices turned out to be as high as the forecast (in fall of 2022 for example) there was the potential for a pretty big hit of \$1.9 billion to state revenue during development.

However, if oil prices turned out to be lower as projected in the 2023 spring revenue forecast, the fiscal hit was smaller. She asked if she interpreted the information correctly.

Mr. Stephens answered that in general terms she was correct. He explained that when moving away from the minimum tax the movement was more gradual. He stated it would take high oil prices, especially in 2028 to reach a situation where all of the lease expenditures reduce [indecipherable]. He turned to slide 43 that he had not previously addressed related to oil price sensitivities. The numbers started to increase as the oil price increased but were not coming down as far as the dashed line shown on a previous graph.

[2:57:21 PM](#)

Representative Hannan asked about the number of changes Mr. Stephens had mentioned from the February whitepaper. She understood the changes were included in the slides. She asked if the changes were summarized anywhere.

Mr. Stephens answered that DOR was working to update the whitepaper in the near term and the full numbers would be released. He would follow up with the information.

Co-Chair Johnson asked the department to provide any wrap up.

Mr. Stickel thanked the committee for the opportunity to present. He relayed the department was available for any potential follow-up questions.

Co-Chair Johnson thanked the presenters and would take an "at ease" before beginning public testimony [on the operating budget].

[2:59:07 PM](#)

AT EASE

[3:07:23 PM](#)

RECONVENED

#hb39

#hb41

HOUSE BILL NO. 39

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 41

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

[3:07:35 PM](#)

Co-Chair Johnson reviewed the public testimony protocol.

^PUBLIC TESTIMONY: OFF NETS

[3:08:22 PM](#)

ANNA GRACE JEFFRIES, PRIMARY PREVENTION COORDINATOR, ADVOCATES FOR VICTIMS OF VIOLENCE, VALDEZ (via teleconference), thanked the committee for including increased funding for prevention work. She stated there were strategies to prevent violence. The organization had introduced evidence-based curriculum such as the Girls on the Run program and hoped to have the Let Me Run program for boys in the coming summer. She shared that the previous month, the organization invited the Alaska Network on Domestic Violence and Sexual Assault to assist in a presentation at the Valdez High School on Bree's Law and Erin's Law. She discussed the benefits of the presentation. The organization helped provide direction and strategies for the community to come together and to prevent crime and change community norms so that violence against women, men, and children would no longer be tolerated.

[3:10:26 PM](#)

MOIRA GALLAGHER, SELF, ANCHORAGE (via teleconference), called in support of adding \$15 million to the childcare grant program to increase wages for childcare providers.

She is a mother of two young children. Her younger son had been on 10 daycare waiting lists for longer than his life due to a lack of daycare in Anchorage. She elaborated that her son could not get into a daycare due to a lack of facilities and caregivers at open facilities. She relayed that many daycares had closed due to a lack of staff. She emphasized that caregivers needed to keep up with inflation and be competitive because it was necessary to keep talented workers in the childcare field. She shared that she and her husband were now spending more than \$5,000 on a nanny. She shared it was almost her husband's entire net monthly income after taxes. She underscored that the workforce shortage was real, and people were leaving their jobs because they could not find childcare. She shared that her family was privileged to have the ability to afford a nanny, but just barely. She urged the committee to add the funds. She spoke about the benefits of the additional funding.

[3:12:50 PM](#)

TIFFANY MILLS, EXECUTIVE DIRECTOR, HELPING OURSELVES PREVENT EMERGENCIES (HOPE), PRINCE OF WALES (via teleconference), spoke in support of funding for domestic violence prevention and services. She shared information about the advocacy work HOPE provided to victims of sexual assault and domestic violence. She was supportive of the Council on Domestic Violence and Sexual Assault (CDVSA) victim services budget. She thanked Representative Ortiz for his support of victims' services on Prince of Wales. She relayed that the organization had not closed during the COVID-19 pandemic and the numbers of individuals seeking help increased each year. She detailed that in 2022, the organization provided services for around 130 adults, which was double the number assisted in 2018. Additionally, the organization had fewer staff in 2022. She relayed that without the one-time increment funding of \$6.5 million in the CDVSA budget, there would be a shortage from the 2022 funding. The organization was appreciative that the budget allowed victim services providers to receive consistent funding as in previous years; however, the costs facing rural Alaska were higher and were continuing to increase. She cited examples of the cost of goods in rural Alaska. The agency was also facing staffing shortages because it had just begun offering health insurance to full-time employees to compete with other employers on the island and it was being very conservative about its hiring practices.

She shared that when the organization got insurance in 2022, it cost \$4,000 per month. She stated that HOPE did not want to be priced out of the market and have to cut the benefit for employees; however, premiums had increased \$400 per month in the current year. She hoped the committee could find more available funding to support victims' services.

[3:15:07 PM](#)

JENA CRAFTON, SELF, EAGLE RIVER (via teleconference), shared that she had been out of work for six years. She spoke in support of reducing the waitlist for people to get services for improved quality of life. Her dad was helping her to try to get a job by driving her. She shared that she was learning how to drive.

[3:17:32 PM](#)

CARRI CRATER, SELF, ANCHORAGE (via teleconference), supported the addition of \$15 million to the childcare budget. She shared that her childcare expenses increased 40 percent since COVID. She shared that her family had spent over \$40,000 on childcare the past year. She highlighted the difficulty of finding quality childcare. She thought the situation was a real problem for the workforce. She noted that childcare providers were shutting down. She spoke to the importance of increasing funding for childcare providers to enable increased staff wages and accessibility.

[3:19:19 PM](#)

MARIA LEGEND, SELF, ANCHORAGE (via teleconference), shared that her son was diagnosed with schizophrenia in 2015. She elaborated that her son had been in and out of psychiatric hospitals and jail. She provided details. She believed that if she and her son had enough help, guidance, and educational resources they would not have been faced with many unnecessary issues. Her son wanted to get his GED, but he was still in need of continuous care, IDD, housing healthcare directives, and guardianship papers. She shared that she was a recovering alcoholic and had dealt with grief and depression in the past. She advocated on behalf of Alaska Native people who were struggling with resources and education to overcome the burdens of mental and behavioral health issues. She asked for increased funding

for the Division of Behavioral Health crisis now continuum of care grants, peer support, homelessness assistance, behavioral health treatment recovery grants, IDD waitlist reduction, and disability services grants.

[3:22:28 PM](#)

TOM CRAFTON, SELF, EAGLE RIVER (via teleconference), shared that he was representing his daughter Jenna Crafton and 700 others who were currently on the developmental disability waitlist for receiving a Medicaid waiver to enable them to have meaningful lives. He had been helping his daughter for 25 years and seeing she had a meaningful life. He stated that he would not be here forever, and he did not know how she would survive later in life without support. He was a highly trained behavioral clinician, but he could not work in his field and help others while his daughter suffered without the services she was entitled to receive. He highlighted the workforce shortage. He stated his daughter was quite able to work (she had called in to testify previously) and wanted to provide for herself. He asked how many other people were home taking care of their loved ones. His mom was now living in his home. He noted that more people were taken out of the workforce with the senior population as well. He stated it was time to eradicate the waitlist. His daughter wanted transportation to and from a good job. He appreciated all of the hard work legislators were doing.

[3:24:46 PM](#)

AMANDA FAULKNER, ALASKA ASSOCIATION ON DEVELOPMENTAL DISABILITIES, KENAI (via teleconference), advocated for an additional Medicaid increment of \$15 million UGF to stabilize home and community-based services while the state worked to address flaws in the rebasing system. The funding would be matched by an additional \$15 million in federal funding (a 10 percent increase in Medicaid rates). The increment would provide bridge funding to prevent system collapse during the process of addressing flaws in the rate methodology system. She clarified the request was separate from the \$647,000 increment as requested to fund the infrastructure needed to start implementation of the waitlist elimination plan. She elaborated that rates were implemented in 2011 and should have been reestablished at least every four years using provider data collection. She reported that rates had not been reestablished in 2014 and

2018 despite regulatory requirements. She stated that the significant lack in responding to increased cost had been exacerbated by the pandemic and reduced services and workforce shortage. She detailed that some providers had gone out of business and other organizations had calculated a path to closure within one to three years. She elaborated that system capacity did not currently exist with smaller providers; therefore, the delivery of care would default to larger institutional settings at a much higher cost to the state, including out of state placements. She remarked that the state's plan would fail if the provider system was weak to the point of not being able to support people with a wide variety of disabilities.

[3:27:25 PM](#)

JON ERICKSON, CITY MANAGER, YAKUTAT (via teleconference), thanked the legislature for the community assistance recapitalization and an increase in the Base Student Allocation (BSA). He stated the community did not have a ferry for the summer because of the Kennicott [the Alaska Marine Highway System (AMHS) announced it did not have sufficient crew to run the Kennicott ferry in the summer of 2023]. Additionally, the community was always short on childcare. He reiterated his thanks to the committee.

[3:28:41 PM](#)

KATHLEEN FITZGERALD, SELF, SOLDOTNA (via teleconference), shared that her 40-year-old daughter was autistic, nonverbal, and required full personal care support and close supervision. Her daughter had a loving and caring heart and a beautiful smile. She shared things her daughter loved to do including hiking, being in the woods, going for drives with her dad, and going to Home Depot. She and her husband were in their 70s and had had worked hard to prepare for when they pass; however, many of the developmental disability agencies were facing challenges attracting staff to care for disabled individuals. She urged the committee to include an additional \$15 million to stabilize agencies. She highlighted the anxiety she and her husband had over their daughter's future. She referenced hard work related to the Harborview Developmental Center in order to provide community support for children, which allowed for family and community input at a much more reasonable cost. She thanked the committee.

3:31:05 PM

JOHN SOLOMON, CEO, ALASKA BEHAVIORAL HEALTH ASSOCIATION, KOTZEBUE (via teleconference), supported funding the recommendations made by the Alaska Mental Health Trust Authority (AMHTA). He provided details about the work performed by the Alaska Behavioral Health Association. He shared that he had started as a therapist flying into remote villages and saw how difficult it could be to deliver care, but he had also seen how much care changed a community and saved money by treating people when they needed it before it was too late. He stressed that something needed to be done. He supported taking care of the most vulnerable Alaskans by funding a behavioral health system. He spoke in support of funding the behavioral health system, which would avoid throwing good money after bad. He stressed when cuts were made, the state paid more. Additionally, when flat funding was provided, the state paid more. He thanked the committee.

Representative Josephson remarked that the organization represented groups that did not necessarily qualify for 1115 waivers. He noted there had been some backfilling with COVID funding of behavioral health grants. He asked how Mr. Solomon viewed the governor's budget in terms of grants outside the 1115 waiver and continuing need.

Mr. Solomon replied that grants allowed for the building of capacity to stand up services. He stated that when there was no ability to start services, the state kept losing providers and care. There was an opportunity to provide startup funds to get providers going. He noted that COVID funding had provided some of the opportunity, but the funds had not been sufficient to stand up the 1115 services.

3:35:14 PM

AT EASE

3:36:06 PM

RECONVENED

TOM MORPHET, SELF, HAINES (via teleconference), testified in support of increased funding for Alaskans with disabilities and families struggling with childcare. He shared that he ran for legislative office in 2018 and all young families wanted to talk about was childcare. He was also concerned about people dying in state prisons, the

lack of funding for the Alaska Marine Highway System (AMHS), and inadequate funding for public schools. He wanted to be taxed. He stressed that the state had \$80 billion in the bank and "we are acting like paupers." He found it very frustrating. He asked for the implementation of an income tax. He underscored the need to act like Alaskans and have courage to do what was right.

[3:38:27 PM](#)

DAWN WALDAL-ANDERSON, MAYOR, WHALE PASS, PRINCE OF WALES (via teleconference), testified in support of the recapitalization of the community assistance program funding. She shared that Whale Pass was Alaska's newest city and it had incorporated just over five years ago. The funding from the community assistance fund accounted for almost 75 percent of the community's budget. The community's city clerk was its only employee. The community was working hard to build up its infrastructure to become a self-supporting and independent city. She reported that if community assistance funding was not recapitalized, it would put the community in a very uncomfortable situation. She thanked the committee.

[3:39:58 PM](#)

JOHN SONIN, CIVILIZED HUMANITY, DOUGLAS (via teleconference), thought it sounded like the other departments could use the pay increase that had just been given to the legislature and executive branch. He could not believe what the basics cost. He stated the funding designated for a pay raise would be better used on education. He asked if the state could not spend \$600 to \$1000 more on students but it could spend a substantial sum on the executive branch. He thought that there needed to be some sense in the budgeting process. He thanked the committee.

[3:42:13 PM](#)

EMILY CARROLL, SELF, ANCHORAGE (via teleconference), shared that she is a pastor. She loved her work but thought about quitting because of the difficulty finding childcare. She elaborated that the provider she had found was closing because other opportunities provided more money. She had called every place in town and could not find childcare because so many childcare workers did not get paid enough.

The state was lacking workers and many moms or dads were having to stay home with their kids because they could not find affordable childcare. She encouraged the committee to add \$15 million for childcare grant wages.

[3:44:03 PM](#)

SUE LIBENSON, SELF, HAINES (via teleconference), supported funding for AMHS. She stressed that the situation was critical. She shared that teachers were leaving and people were quitting because people could not come and go from the community. She received calls from people expressing incredulity that they were unable to make a reservation. She highlighted the once-in-a-generation federal funding that required a state match. She remarked that the state needed to step up and provide a full match in order to qualify for over \$100 million in federal funds. She stated the situation impacted the military deployed up north, school teams, a lack of medical services. She emphasized that Haines was losing valued members of the community due to lack of ferry service.

[3:46:27 PM](#)

ERIC GURLEY, EXECUTIVE DIRECTOR, ACCESS ALASKA INC., ANCHORAGE (via teleconference), supported funding for independent living centers. He shared that Access Alaska was one of the state's four centers for independent living in Fairbanks, Anchorage, Fairbanks, Mat-Su, Southwest Alaska, and other locations. The organization's efforts assisted individuals and families to improve their independence and enabled Alaskans with disabilities to remain in their own homes and communities. He noted that one of the largest programs provided consumer directed personal care services to qualifying Alaskans. The workforce shortage created significant challenges with filling the need. He elaborated that Alaska's service providers continued to struggle with filling vacancies. He thanked the committee for its support for senior and disability services community based grants. He requested the addition of an increment to support participant directed care. The model placed employment and budget authority in the hands of those who need and receive services. He stated that the ability to hire a friend or family member to provide needed support was the next step of meeting the needs of Alaskans. He asked the committee to

support an increment to initiate a program for Alaska to begin the effort. He thanked the committee.

Representative Cronk thanked Mr. Gurley for calling in.

Co-Chair Johnson relayed there were no additional testifiers currently in the room or online. She recessed the meeting until 4:10 p.m.

[3:48:57 PM](#)

RECESSED

[4:14:09 PM](#)

RECONVENED

Co-Chair Johnson noted there were no additional testifiers online. She recessed the meeting until 4:30 p.m.

[4:14:09 PM](#)

RECESSED

[4:30:53 PM](#)

RECONVENED

RICK NELSON, SELF, ANCHORAGE (via teleconference), testified in support of funding for people with disabilities and their services. He referenced a lack in workforce due to the rate caretakers were paid. He testified in support of increased wages for caretakers. He shared that the rate for home and community-based services had not increased in the past 12 years. The 10 percent rate increase in the past year had not helped anyone. He stated an increase of at least 13 percent was needed for individuals to earn a living wage. He stated that without the increase, the agencies would die. He urged the committee to pass the budget with the increment.

Representative Galvin thanked Mr. Nelson for calling in and for his leadership. She was grateful for his work.

Co-Chair Johnson noted there were no additional testifiers.

HB 39 was HEARD and HELD in committee for further consideration.

HB 41 was HEARD and HELD in committee for further consideration.

Co-Chair Johnson reviewed the schedule for the following meeting.

#

ADJOURNMENT

4:35:54 PM

The meeting was adjourned at 4:35 p.m.