

HOUSE FINANCE COMMITTEE
April 15, 2024
1:35 p.m.

[1:35:17 PM](#)

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:35 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

Akis Gialopsos, Deputy Executive Director, Alaska Housing Finance Corporation; Eric DeMoulin, Admin Services Director, Department of Revenue; Sommers Cole, Alaska Government Affairs Manager, The Nature Conservancy, Juneau; Sarah Nabinye, Alaska Venture Fund, Juneau; Derek Nottingham, Director, Division of Oil and Gas, Juneau; John Crowther, Deputy Commissioner, Department of Natural Resources, Juneau.

PRESENT VIA TELECONFERENCE

Curtis Thayer, Executive Director, Alaska Energy Authority, Anchorage; Dan Stickel, Chief Economist, Department of Revenue, Tax Division, Juneau.

SUMMARY

HB 154 AK HOUSING FINANCE CORP: SUSTAIN ENERGY

HB 154 was HEARD and HELD in committee for further consideration.

HB 223 TAX and ROYALTY FOR CERTAIN GAS

HB 223 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hb154

HOUSE BILL NO. 154

"An Act relating to subsidiary corporations of the Alaska Housing Finance Corporation; and establishing the Alaska energy independence fund."

[1:37:15 PM](#)

AKIS GIALOPSOS, DEPUTY EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, introduced himself and the PowerPoint presentation "House Bill 154: Alaska's Energy Subsidiary" dated April 15, 2024 (copy on file). He began on slide 4, which outlined the policy objectives of the bill.

[1:40:50 PM](#)

Mr. Gialopsos continued on slide 5. He stated that the U.S. Environmental Protection Agency's Greenhouse Gas Reduction Fund (GGRF) announced \$14 billion in National Clean Investment Fund grants and a \$6 billion Clean Communities Investment Accelerator.

Mr. Gialopsos advanced to slide 6 and noted that one of the funds that had gone under the radar.

[1:46:37 PM](#)

Mr. Gialopsos continued to slide 8, which showed the renovation loan option which allowed for improvements to increase a home's value, its energy efficiency, and incorporated universal design principles to age-in-place thereby while improving Alaska's aging housing stock.

Representative Galvin asked about the timeline, and wondered whether the number meant homes or other types of properties. She wondered whether someone could get a loan with the presumption that the energy savings would be so high so they would see a net positive after the funding.

Mr. Gialopsos responded that the new home construction program which existed between 2008 to 2016 operated in that manner. He stated that an individual could receive a certificate of a five-star energy rating to receive a rebate. He remarked that the legislature funded that program. He furthered that the home buyer would receive the rebate instead of the home builder, in order to delay gratification and make a strategic investment.

Representative Galvin asked about the renovation loans.

Mr. Gialopsos replied that the renovation loan would use, because their current mortgage may have a lower interest rate.

[1:53:29 PM](#)

Representative Galvin understood that the idea was to grow more than 434 renovation loans with an extension of longer than 15 years.

Mr. Gialopsos agreed.

Mr. Gialopsos continued on slide 9. He stressed that the policy required to adhere to building management code.

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Mr. Gialopsos moved to slide 10. He commented that the slide showed the issue of the labor shortage, which had an impact on new homes being built currently.

Mr. Gialopsos continued to slide 11. He was cautiously optimistic about the program.

[2:02:31 PM](#)

Mr. Gialopsos advanced to slide 12. He stated that an entity that collaborated with federal, state, local, non-

profit, and private sector organizations could have access to the program.

Mr. Gialopsos continued to slide 13. He remarked on the tradition of working collaborate with sister agencies and organizations, stepping up, and meetings the needs of Alaskans.

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Representative Stapp asked if the units in Fairbanks were referring to the large complex off of Hamilton Acres.

Mr. Gialopsos responded that he wanted to confirm the information in writing.

Representative Hannan noticed in standing up the subsidiary, it did not appear that the board of directors was altered in any way. she thought the board should change and asked if it was talked about in the legislation development.

Mr. Gialopsos responded thanked Representative Hannan for asking the same question in the prior year. He believed that the board was properly constituted.

[2:09:17 PM](#)

Representative Coulombe asked about the regional aggregators.

Mr. Gialopsos returned to slide 5 to answer the question. He stated that one of the regional aggregators was the Coalition For Green Capital, which was an established national organizations.

Representative Coulombe surmised that the coalition was based in Washington DC.

Mr. Gialopsos responded agreed, and stated that he would follow up.

Representative Coulombe queried the role of the Alaska Municipal League.

Mr. Gialopsos replied that they understood the capacity of the state in understanding the tax code.

Representative Coulombe asked who was deciding where the grants were going.

Mr. Gialopsos replied that the Environmental Protection Agency (EPA) made those decisions

[2:13:58 PM](#)

Representative Coulombe asked what would happen to the federal money without the green bank.

Mr. Gialopsos responded that in some cases it was unclear.

Representative Galvin wondered whether the "middleman" had a take on the money.

Mr. Gialopsos replied that EPA would finalize their award negotiations with the aggregators, which would conclude near the end of June.

Representative Galvin stated that her biggest concern was how each entity was receiving what was needed to ensure that Alaska was getting as much funding as possible.

Mr. Gialopsos responded that he could not quantify what it looked like until the passage of the bill.

[2:20:12 PM](#)

Co-Chair Johnson wondered whether there were any missing pieces in the presentation.

Mr. Gialopsos replied that there were suggestions at the end of the presentation.

Representative Josephson queried the original purpose of the \$20 million fiscal note.

Mr. Gialopsos responded that feedback showed that there was a risk of the parent's corporate veil to be lifted, and could jeopardize the mortgages.

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Representative Josephson felt that there should at some future date be some state cooperations in the investments.

Mr. Gialopsos responded that it was up to the administration and legislature to determine those requirements.

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CURTIS THAYER, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, ANCHORAGE (via teleconference), continued the presentation on slide 14.

Mr. Thayer continued on slide 15.

Mr. Thayer advanced to slide 16.

[2:29:35 PM](#)

Mr. Gialopsos moved to slide 17. He stated that should HB 154 pass, the corporation anticipated that the parent board would create a nonprofit subsidiary government procedure.

Mr. Gialopsos reviewed the fiscal note from Department of Revenue (DOR).

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Mr. Thayer went through the fiscal notes from the Department of Commerce, Community and Economic Development (DCCED) for AEA.

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ERIC DEMOULIN, ADMIN SERVICES DIRECTOR, DEPARTMENT OF REVENUE, went through the zero fiscal note for the Department of Administration (DOA).

Co-Chair Foster OPENED public testimony.

[2:37:13 PM](#)

SOMMERS COLE, ALASKA GOVERNMENT AFFAIRS MANAGER, THE NATURE CONSERVANCY, JUNEAU, supported Governor Dunleavy's efforts, and spoke in support of the bill.

[2:39:21 PM](#)

SARAH NABINYE, ALASKA VENTURE FUND, JUNEAU, testified in support of the legislation.

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Co-Chair Foster CLOSED public testimony.

Representative Hannan returned to fiscal notes AHFC, and asked whether there were two additional positions. She wondered whether there would be three positions created in the bill.

Mr. Gialopsos responded in the affirmative.

[2:44:15 PM](#)

Mr. Thayer responded that the planning department was three people and would require another full time position.

Representative Hannan wondered whether there needed to be an amendment in the bill for those positions.

Mr. Gialopsos responded that section 4 of the bill was something that was extricated from the draft by the other body.

Co-Chair Edgmon stressed that it was a "sleeper" bill and was more significant than it seemed, and he asked if the state was limiting its ability to attract.

Mr. Gialopsos responded in the negative.

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Representative Josephson //

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RECONVENED

HB 154 was HEARD and HELD for further consideration.

#hb223

HOUSE BILL NO. 223

"An Act relating to the production tax and royalty rates on certain gas; and providing for an effective date."

[2:55:33 PM](#)

DEREK NOTTINGHAM, DIRECTOR, DIVISION OF OIL AND GAS, JUNEAU, introduced the PowerPoint presentation "HB 223 Tax and Royalty for Certain Gas" dated April 15, 2024 (copy on file). He began on slide 2, and stated that the goal was to The goal of HB 223 was to increase available gas supply in the Cook Inlet to meet expected shortfalls.

Mr. Nottingham continued to slide 3:

- o Benefits accumulations that have been discovered but have not been brought into production
- o Promotes exploration for undiscovered resources also touched on Fields or pools that have produced in the past but were offline during 2024
- o Fields currently shut-in receive the royalty benefit if brought back into production also addressed Wells drilled into fields or pools that are currently producing when production from the existing wells is not feasible
- o Incentivizes drilling outside of the current "drainage area" of wells currently producing Wells drilled into fields or pools that are currently producing when production from the existing wells is not feasible
- o Incentivizes drilling outside of the current "drainage area" of wells currently producing

Mr. Nottingham continued on slide 4:

- Barriers to equity investment in these projects are high up-front capital costs, federal permitting challenges, gas market uncertainty, and oil service industry challenges. Major accumulations with financing obstacles:
 1. BlueCrest's Cosmopolitan Project 250 BCF
 2. Hex/Furie's Kitchen Lights Development 300 BCF
- Projects are competing for equity capital with Lower 48 investments which have lower up-front costs, shorter payback, and a more certain environment
- Reducing the royalty for these projects prior to investment

[2:59:48 PM](#)

Mr. Nottingham continued on slide 5:

- Although there are known, but undeveloped gas resources, these have not been sanctioned by operators under the current fiscal system and royalty rates.
- Under the current royalty rates, expected revenues to the State from current and expected development are \$648 million for the period 2025-2035
- If the royalty reduction leads to new investments in gas projects, then future gas production will likely meet the demand by Railbelt consumers for at least the next ten years—ultimately leading to estimated total revenues to the State of \$659 million for the period 2025-2035.
- If the royalty reduction is not successful in adding significant new gas production (i.e., no new gas in addition to the PD and PUD gas forecast), then the State would lose \$40 million over the period 2025-2035.

Mr. Nottingham advanced to slide 6, which showed what was happening in graph form. He shared that the darker dash line was revenue under HB 233 in a failure case and the lighter dash line was revenue under HB 233 if the projects were successful.

Mr. Nottingham advanced to slide 7.

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Representative Josephson asked whether the 1987 of Trustees vs. the State of Alaska, which showed that the state was not allowed to take a zero percent royalty. He wondered whether the state was legally allowed to take a zero percent royalty.

[3:05:36 PM](#)

JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, JUNEAU, replied that the legislation would not have a royalty.

Representative Josephson asked if the state had considered a deferred royalty.

Mr. Crowther responded that the department did not view that it was needed for the bill.

Representative Josephson asked if the administration considered an option where the state was the purchaser.

Mr. Crowther responded that there had been some discussion and consideration, and he would be happy to follow up.

[3:09:55 PM](#)

Representative Josephson surmised that the forgone revenue was the 40 million per year.

Mr. Crowther responded that it was an aggregate based on the assumptions and approximations of less roads into the state in that ten-year period.

Representative Stapp asked why would the department choose to extend the royalty for a decade.

Mr. Crowther responded that tone of the things he had heard from the market was that the payback times were limiting.

[3:18:12 PM](#)

Representative Stapp queried the reason for the royalty relief conclusion.

Mr. Crowther responded that action on the royalty was the action that the state could do to incentivize development.

Representative Stapp queried the reason that there was not a rebate of the royalty to the end user.

Mr. Crowther responded that how the legislature determined to allocate the royalty was a policy question.

Co-Chair Foster noted that there was already a reduction in tax on natural gas. He queried the current Cook Inlet production tax.

Mr. Crowther deferred to Mr. Stickel.

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DAN STICKEL, CHIEF ECONOMIST, DEPARTMENT OF REVENUE, TAX DIVISION, JUNEAU (via teleconference), responded he current gas production tax was 15 percent of gross value.

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Representative Galvin wondered how DNR would feel about limiting the length of royalty relief.

Mr. Crowther was happy to work with policy amendments.

Representative Galvin thought it seemed uncomplicated to adjust the length of the royalty relief.

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Representative Hannan queried an opinion from Legislative Legal as related to the 1987 lawsuit.

Co-Chair Foster agreed.

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Representative Tomaszewski asked whether the bill impacted Fairbanks.

Mr. Crowther responded that the bill directly influenced the energy market in Fairbanks.

HB 223 was HEARD and HELD for further consideration.

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ADJOURNMENT

[3:44:04 PM](#)

The meeting was adjourned at 3:44 p.m.