

HOUSE FINANCE COMMITTEE

May 2, 2024

4:11 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 4:11 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

Representative Genevieve Mina; Courtney Enright, Legislative Liaison, Department of Health; Katy Giorgio, Staff, Representative Genevieve Mina; Representative George Rauscher, Sponsor; John Crowther, Deputy Commissioner, Department of Natural Resources; Derek Nottingham, Director, Division of Oil and Gas, Department of Natural Resources; Craig Valdez, Staff, Representative George Rauscher; John Boyle, Commissioner, Department of Natural Resources; Clark Bickford, Staff, Representative Jesse Sumner; Brodie Anderson, Staff, Representative Neal Foster; Representative Jesse Sumner, Sponsor; Cody Rice, Staff, House Majority; Representative Tom McKay.

PRESENT VIA TELECONFERENCE

Deb Etheridge, Director, Division of Public Assistance, Department of Health; Brandon Spanos, Acting Director, Tax Division, Department of Revenue; Brandon Brefszynski, Deputy Director, Alaska Industrial Development and Export Authority; Emily Nauman, Director, Legislative Legal Services; Brandon Spanos, Acting Director, Tax Division, Department of Revenue; Josephine Stern, Assistant Commissioner, Department of Health; Brandon Emmett, Chairman, Governor's Tax Task Force on Recreational Marijuana and Hemp; Teri West, Administrative Services Director, Department of Corrections; Leslie Isaacs, Legislative Liaison, Department of Administration; Pam Halloran, Administrative Services Director, Department of Public Safety; Joan Wilson, Director, Alcohol and Marijuana Control Office, Department of Commerce, Community and Economic Development.

SUMMARY

HB 119 MARIJUANA TAX

CSHB 119(L&C) was REPORTED out of committee with seven "do pass" recommendations, two "amend" recommendations, and one "no recommendation" recommendation and with seven new fiscal impact notes from the Department of Corrections, three new fiscal impact notes from the Department of Health, one new fiscal impact note from the Department of Public Safety, one new fiscal impact note from the Department of Revenue, and one previously published zero note: FN1 (ADM).

HB 196 FOOD STAMP PROGRAM ELIGIBILITY

HB 196 was HEARD and HELD in committee for further consideration.

CSHB 223 (FIN)
TAX & ROYALTY FOR CERTAIN GAS

CSHB 223 (FIN) was HEARD and HELD in committee for further consideration.

CSSB 74 (FIN)
PHYSICAL THERAPY LICENSURE COMPACT

CSSB 74(FIN)a was HEARD and HELD in committee for further consideration.

CSSB 75(FIN)

AUD. & SPEECH-LANG INTERSTATE COMPACT

CSSB 75(FIN)a was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda. He explained that the committee would hear the bills it did not address in the previous meeting. The current meeting was scheduled to begin at 10:00 a.m. and the committee had scheduled an additional meeting that was set to begin at 1:30 p.m.

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Co-Chair Edgmon implored the committee to be as brief as possible considering the lengthy agenda and late hour of the day.

Co-Chair Foster agreed with the sentiments.

Representative Hannan asked for clarification on which bills were scheduled for the 1:30 p.m. meeting.

Co-Chair Foster replied that HB 232 and SB 104 were scheduled.

Representative Hannan asked if the committee had already heard SB 104.

Co-Chair Foster responded that SB 104 had not been heard but the committee had heard the House companion bill.

Representative Hannan commented that some bills required longer discussions than others.

Co-Chair Foster agreed and noted that some of the bills on the agenda had many amendments and others were first hearings.

Co-Chair Foster noted that Representative Genevieve Mina was in the audience.

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#hb196

HOUSE BILL NO. 196

"An Act relating to the supplemental nutrition assistance program; and providing for an effective date."

Co-Chair Foster relayed that the committee would hear fiscal notes for the bill.

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COURTNEY ENRIGHT, LEGISLATIVE LIAISON, DEPARTMENT OF HEALTH, went through the fiscal impact note by the Department of Health (DOH) with control code OVeDm. The fiscal note stated that the addition of a new position within DOH would cost \$138,000 in the initial year and \$135,000 in subsequent years. She explained that half of the funding would come from federal receipts and half would come from the general fund. The department recognized that implementing the broad-based categorical eligibility had many additional requirements for compliance, largely associated with the dual eligibility with the Temporary Assistance for Needy Families (TANF), which would necessitate an additional employee.

Representative Stapp understood that previous testifiers had stated that the bill would save the department money, but he did not see the savings reflected in the fiscal note. He asked why the existing quality control employee would not simply take on the new duties required by the bill.

Ms. Enright deferred the question to her colleague.

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DEB ETHERIDGE, DIRECTOR, DIVISION OF PUBLIC ASSISTANCE, DEPARTMENT OF HEALTH (via teleconference), replied that the fiscal notes reflected non-cash TANF benefits, for which DOH was responsible. She noted that there was an obvious deficit and the Division of Public Assistance (DPS) experienced internal struggles around its internal case review. The division was requesting an additional position to ensure that it could effectively administer the food TANF program.

Representative Stapp asked if it was the department's view that the bill would save time. The fiscal note stated that households must complete a staff application, interview, provide financial processes, report documents, and reapply regularly. He asked whether the department anticipated any changes in productivity due to the expected increased volume. He did not see any information in the fiscal note that stated that the number of eligibility technicians would be decreased.

Ms. Etheridge responded that the fiscal note did not reflect the delays and additional work required to do a verification of assets. The Division of Public Assistance (DPA) would often need to "pend" the cases, which meant that the case would need to be reevaluated when additional information was available. The division sometimes received partial information, which meant the case had to be pended for a longer period of time. The process was more time-consuming when the department had to complete verification requests for assets. She explained that removing the asset requirement helped the division process cases faster. The division anticipated receiving additional applications for the Supplemental Nutrition Assistance Program (SNAP) because the federal poverty level (FPL) would increase, which would increase the number of individuals who were eligible for benefits.

Representative Stapp understood that on top of the FPL was the 200 percent requirement broad-based category eligibility. He asked if the percentage could be altered.

Ms. Etheridge responded that 200 percent was the requirement. She would confirm the information.

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Representative Hannan asked if there would be a decline in benefits if an individual increased their FPL.

Ms. Etheridge responded in the affirmative. She had recently testified on the boundaries of the eligibility requirements. As an individual's income increased, the benefits decreased.

Representative Hannan recalled that one level of benefits might be \$36 a month, which would mean that an individual

who was at the 200 percent above poverty eligibility level might receive less than \$50 in benefits.

Ms. Etheridge replied that \$36 was the amount for a single individual in an urban area. There were three categories of eligibility: urban, rural one, and rural two.

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KATY GIORGIO, STAFF, REPRESENTATIVE GENEVIEVE MINA, responded that 200 percent was not a requirement, and a different number could be chosen. There were a range of upper poverty limits that states used and the federal government allowed Alaska to independently shape its SNAP program. She noted that most states had chosen 200 percent.

Representative Galvin understood that 42 states had decided on 200 percent. She asked if she was correct.

Ms. Giorgio responded that she had a chart from the United States Department of Agriculture (USDA) that detailed the specifics for each state. She relayed that 42 states and territories had adopted broad-based categorical eligibility in some form. Every state administered the program slightly differently.

Ms. Enright relayed that there was an additional fiscal impact note from DOH with the control code vOQPI. The fiscal note detailed that an additional position would cost an initial \$141,000 and would cost \$138,000 in subsequent fiscal years. The cost would be split equally between federal receipts and a general fund match. The position would be in the training unit and would help integrate the categorical eligibility category into the suite of other assistance programs.

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Representative Galvin asked if there had been any work done to ascertain how much extra money would be coming into the state through the grocery stores that would be seeing a lot more traffic. She understood that people would be going into grocery stores instead of food banks. She asked if there had been any research on the potential impacts.

Ms. Enright responded that the department did not have an estimate, but she would follow up.

Ms. Giorgio responded that she did not have an estimate as to how many SNAP dollars might flow into Alaska, but every SNAP dollar in Alaska generated about \$1.70 in economic activity. She relayed that there were a high number of SNAP recipients predominantly in rural areas and the SNAP dollars were spent in local grocery stores, which had downstream effects on the local economy. She viewed SNAP as an economic driver.

Representative Galvin asked how many dollars were currently spent through SNAP.

Ms. Giorgio did not have the information.

Ms. Enright also did not have the information.

Representative Galvin asked the if total spend was \$1 million or \$2 million or was it in the tens of millions.

Ms. Etheridge responded that she did not have the information forecasted within DPA, but she could follow up with an estimate. She explained that the program was a federal pass-through benefit.

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Representative Stapp asked why the fiscal note indicated that the employee would be needed through 2030 if the program only required a temporary change in the software.

Ms. Enright responded that turnover was normal for many departments, and she wanted the fiscal note to reflect the expectation that new employees would continue to train on the broad-based categorical eligibility for many years into the future.

Representative Stapp assumed that the division had to train employees already and wondered why another employee needed to be added for training purposes.

Ms. Etheridge responded that the role included non-cast TANF benefits-related duties. The work was provided to individuals who were receiving or eligible for broad-based categorical eligibility. The work could include brochures or training. There was an entire body of work that was associated with the implementation of broad-based

categorical eligibility and the new employee would be tasked with the work.

Representative Stapp commented that he kept hearing that there was significant work that would need to be done if the bill were to pass.

Representative Tomaszewski noted that the commodities line in the fiscal note showed a \$4,000 appropriation in FY 25, but in the analysis, it was referred to as a \$40,000 appropriation. He asked if it was \$4,000 or \$40,000.

Ms. Enright responded that it was a typo and it was meant to be \$4,000 and not \$40,000.

Representative Tomaszewski asked if the federal poverty guidelines spreadsheet had been distributed to committee members.

Ms. Giorgio responded that she sent the spreadsheet to committee staff in the morning, but she would follow up to make sure it was distributed.

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Co-Chair Foster set an amendment deadline for Tuesday, May 7 at 5:00 p.m.

HB 196 was HEARD and HELD in committee for further consideration.

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#hb223

CS for HOUSE BILL NO. 223 (FIN)

"An Act relating to royalty rates and payments for certain oil and gas; and providing for an effective date."

Co-Chair Foster relayed that the committee would review the two fiscal notes and then proceed to amendments.

REPRESENTATIVE GEORGE RAUSCHER, SPONSOR, offered an overview of HB 223. He explained that the bill represented a crucial step in revitalizing Alaska's critical natural gas industry in the Cook Inlet sedimentary basin and was a

legislative response to the impending natural gas availability shortage. The bill addressed a longstanding barrier to new investment and production. By proposing strategic modifications to the royalty rates, HB 223 aimed to elevate Alaska's competitiveness and attractiveness for natural gas investments in an underutilized field.

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BRANDON SPANOS, ACTING DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), reviewed the new indeterminate fiscal note with control code lgkbj from the Department of Revenue (DOR). There were no direct changes to taxes. The revenue impact of the fiscal note was limited to the oil and gas production tax administered by the Tax Division, and the most significant impact on state revenue would be the royalties collected by the Department of Natural Resources (DNR). Based on DNR's Spring 2024 Revenue Forecast, oil production would qualify for royalty reduction and a share of gas production might also qualify. He explained that qualifying gas production represented wells that were expected to be drilled after July 1, 2024, to meet existing gas contracts. Production tax revenue was impacted because the production tax applied to taxable oil and gas was calculated after subtracting royalties. With reduced royalties, a slightly higher quantity of gas would be taxable.

Mr. Spanos continued that the production tax for gas in the Cook Inlet was 13 percent of gross value with a per thousand cubic feet (MCF) tax ceiling of 17.7 cents per taxable MCF for new fields and an average of 15.9 cents per taxable MCF for existing fields. The revenue impact of the bill was shown as indeterminate because it was not possible to precisely determine the volume of gas that would qualify for royalty relief under the existing forecast or the volume of new oil and gas that might be incentivized through the bill. Based on the Spring 2020 Revenue Forecast, there would likely be production tax increases of several hundred thousand dollars with no changes to company behavior or investment. If additional production and investment occurred, the tax impact would be greater and could bring about increased property tax and corporate income tax. There would be no additional cost for DOR to administer the bill because there were no direct impact changes.

Representative Josephson noted that earlier in the session, a bill sponsored by the governor which would request a relief for new production down to 5 percent was released. He had asked previously what the annual royalty was that the state received from Cook Inlet, and he found out it was \$40 million. He had also asked if there was any way to estimate what the impact on royalties would be under the bill.

Mr. Spanos deferred the question to DNR.

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JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, asked Representative Josephson to restate the question.

Representative Josephson restated the question.

Mr. Crowther responded that he understood that DNR had already provided the information to the committee. If the legislation functioned as intended and brought gas to market, the result would be a net revenue to the state, not a net royalty to the state. The state would continue to receive the royalty from the existing production, and the status quo curve would continue to come to the state directly from the royalty. If the projects did not come online, DNR anticipated minor reductions in royalty in out years because a small portion of the projects might qualify. The department would not expect to see material reductions to royalties, even if the bill was not successful in bringing more production online.

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DEREK NOTTINGHAM, DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, reviewed the zero fiscal impact note with control code gemhR from DNR. The department was not adding any costs to the system in the application of the royalty modification. There were no new positions. The department would need to formulate regulations and the analysis reflected Mr. Crowther's response to the previous question.

Representative Ortiz asked for a definition of certain oil and gas under the bill.

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CRAIG VALDEZ, STAFF, REPRESENTATIVE GEORGE RAUSCHER, asked what part of the bill Representative Ortiz was questioning.

Representative Ortiz responded that he was looking at the title of the bill.

Mr. Valdez responded that the title was slightly amended in the House Resources Committee. He explained that the definition of certain oil and gas was on page 2, line 2 of the bill. Qualified new gas meant gas produced under subsections (A), (B), and (C).

Representative Hannan asked whether the legislative consultants on oil and gas had been involved in the dialogue or had been briefed by the House Energy Committee or House Resources Committee on the potential impacts of the bill.

Mr. Valdez responded that the consultants were currently working on determining the potential impacts.

Representative Rauscher responded that the consultants were new and were hired within the last two weeks and were currently working on models of the potential impacts of the bill. The consultants had not yet produced anything tangible, but the work was being done.

Representative Hannan asked if any oil and gas consulting firms had advised the legislature on the bill or if the guidance was strictly from industry participants and state agencies to develop a tax recommendation.

Mr. Valdez responded that DNR had provided the modeling regarding the department's outlook in previous presentations.

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Representative Galvin asked which resources were used to prepare advice for the tax structure.

Mr. Crowther responded that DNR had assisted the sponsor of the bill and the team that administered the existing royalty program was involved in crafting the recommendations. He explained that DNR was responsible for

promoting the maximum use and development of state resources and collecting and administering royalties. The team had intimate knowledge of the function of the current system, the current state of development, and how changes to the royalty structure would affect the development paradigm. He explained that DNR had an entire section of subsurface professional experts and commercial professional experts.

Representative Galvin asked if Mr. Crowther would agree that when there had been changes in tax structures in the past, the department had typically engaged outside analysts to help consult and provide a more global perspective.

Mr. Crowther replied that the department had extensive expertise with royalty provisions. The legislation was limited to royalties and not changes to the Cook Inlet tax structure. He was confident in the department's in-house expertise on royalties.

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AT EASE

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RECONVENED

Co-Chair Foster moved to the amendment process.

Representative Stapp MOVED to ADOPT Amendment 1, 33-LS0886\D.2 (Nauman, 4/24/24) (copy on file):

Page 1, line 7:

Delete "in the Cook Inlet sedimentary basin"

Insert "for land south of 68 degrees North latitude"

Page 1, line 14:

Delete "the Cook Inlet sedimentary basin"

Insert "land south of 68 degrees North latitude"

Co-Chair Foster OBJECTED for discussion.

Representative Stapp explained that the amendment had appeared in a different variation of the bill. The amendment was called the "Middle Earth" amendment and would not only apply to Cook Inlet, but to the area in between North Slope oil and gas reserves, as well as to the Cook Inlet Basin, which was referred to as Middle Earth.

Representative Rauscher supported the amendment. He explained that the original version of the bill included Middle Earth language. He supported the idea of the amendment in the past as well.

Representative Hannan asked if the sponsor of the amendment looked at 38 degrees North latitude and to the far west areas of Alaska as well. She understood that Representative Stapp was referring to Fairbanks when he mentioned Middle Earth, but she thought Chuckchi Seas offshore oil and gas development would be mainly below 38 degrees North latitude.

Representative Stapp responded that Middle Earth was not just Fairbanks, but anything from the Fairbanks degree of latitude. He did not think that the amendment would cause zero royalties to be given for offshore drilling in the Chuckchi Sea as similar language as the language in the amendment was already commonly used.

Mr. Valdez responded that page 1, lines 11 through 14 of the bill indicated that the amendment would still be subject to the same rules. If there was any commercial production and exploration that was then exported for revenue, the amendment would be covered under the same provisions as well.

Representative Josephson understood that thousands of people in Fairbanks received natural gas and the amendment maker intended to build out the same process for both cost benefits and clean air benefits. He asked if the point of the amendment was to build pipelines to the source of gas in the event that gas in commercially producible quantities was found in the interior.

Representative Stapp responded that he had another amendment referencing Representative Josephson's understanding of his point. The amendment simply borrowed language within another variation of another energy bill and inserted it into the bill at hand. He noted that there were currently no active developments on state land of oil and gas in Middle Earth. He was trying to look at all potential opportunities to solve the Cook Inlet gas crisis. He was not overly optimistic that including Middle Earth in the bill would bring about a positive result, but he thought it was an important strategy to explore.

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Co-Chair Johnson asked why the royalty would be changed if there was little optimism about the change producing a positive result. She was reluctant to give up royalties without a clear reason.

Co-Chair Foster WITHDREW the OBJECTION.

Representative Hannan OBJECTED.

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A roll call vote was taken on the motion to adopt Amendment 1.

IN FAVOR: Coulombe, Tomaszewski, Cronk, Ortiz, Josephson, Foster, Stapp, Galvin

OPPOSED: Hannan, Johnson, Edgmon

The MOTION PASSED (8/3). There being NO further OBJECTION, Amendment 1 was ADOPTED.

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Representative Coulombe WITHDREW Amendment 2 (copy on file).

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Representative Josephson MOVED to ADOPT Amendment 3, 33-LS0886\D.14 (Nauman, 4/26/24) (copy on file):

Page 1, line 7:

Delete "zero"

Insert "6.25"

Page 2, line 2, following the second occurrence of "gas":

Insert "offered for sale to an electric or heating utility before being offered for sale to another person that is"

Co-Chair Foster OBJECTED for discussion.

Representative Josephson explained that the amendment would remove the zero royalty. He had read a memo on the subject and there was a 1987 decision called Trustees versus State which essentially said that in most circumstances, taking 0 percent royalty was not allowable. The amendment suggested taking a 6.25 percent royalty instead, which was half of the traditional royalty. Some fields on the North Slope had over 16 percent royalty, but generally, the rest of the country had moved beyond the standard 12.5 percent royalty rate. The amendment would generously cut the royalty in half. The amendment also acknowledged that the purpose of royalty relief was to fix the Cook Inlet "crisis" and would offer a break when gas produced from a new field was sold to a heating or electric utility.

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Representative Stapp thought that the point of the bill was to make the costs input for production in Cook Inlet as close to free as possible. He agreed that the 6.25 percent royalty idea would be less expensive, and he would be amenable to the idea. He would defer details to legislators from Anchorage and South Central because he did not want to potentially disrupt and worsen the situation.

Representative Cronk did not live in Anchorage but wanted to help individuals who lived in Anchorage. He would be satisfied with a 0 percent tax, but he would also support a higher tax.

Mr. Valdez commented that a portion of the amendment was in the original version of HB 223, but through consulting with DNR and oil and gas experts, it was discovered that it would be nearly impossible to track molecules of gas once the molecules entered a common carrier pipeline. He argued that it would create more uncertainty and disincentivize investment. The oil was in Cook Inlet, but producers were facing financial disincentives to pursue the oil. He had consulted with DNR and the department asserted that 6.25 percent was too high to shift the economics of the gas products most likely to deliver immediate long-term results. He explained that lower rates brought about greater economic shifts and made it easier to generate the desired additional production. He understood that the main focus of the bill was to increase production in Cook Inlet to proprietary gas for electricity and heating to Southcentral Alaska. All gas produced would be used by

citizens of the state, which was why he thought a 0 percent rate made sense as it would maximize the results for Alaskans.

Representative Josephson understood that the bill as written stated that if a droplet of oil was produced in a new location, the producer would lose all potential relief. He did not understand how the bill would help the Cook Inlet crisis if producers could ship oil out of the state and still receive relief.

Mr. Valdez asked Representative Josephson to rephrase the question. He understood that if the bill were to pass as written, oil that was produced in the Cook Inlet and shipped out of state would not be eligible for royalty relief. There was a future amendment that would address a language change to include a particular lessee or the basin as a whole as well.

Representative Josephson had no further comments.

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Representative Galvin supported the amendment because she thought it offered some relief to developers. She asked if 6.25 percent was undoubtedly the correct percentage. She asked if DNR still had the discretion to reduce the percentage.

Mr. Valdez responded that there was a requirement for a multi-year effort to evaluate the possibility reducing the rates. The legislature would have about one year to decide whether there would be implications of Alaska liquified natural gas (LNG) increasing costs for Cook Inlet. The bill would help create certainty and allow more time for decision-making.

Representative Galvin understood that the projects all took years to be completed and that each gas company was doing independent modeling to determine economic viability. If there were any issues, the companies would have years of accounting to share with DNR and be able to explain why a change in royalty was needed. She presumed that investors would want to receive constant updates on the companies' activities. She did not want to take away power from the department because it was important for Alaskans to have the gas necessary to keep warm. She stressed that there was

a larger context and that the DNR commissioner had the power to change the royalty percentage when it was needed. She thought the structure already allowed for companies to show accounting data to the commissioner only and not to the public.

Mr. Valdez responded that producers of gas were not the only party responsible for making decisions; buyers of gas were equally involved in the decision-making process.

Representative Hannan returned to the topic of the proposed addition in the amendment of language relating to gas being offered for sale to an electric or heating utility before a person. In response to Representative Josephson, Mr. Valdez had noted that the original version of the bill included a similar line and that the concern was that once the gas was in a common carrier, there was no way to know to which entity it was sold. She could think of many industrial clients who would be willing to pay more than a local utility. She understood that DNR suggested that it would be too difficult to track gas sales in such a way and that the language should be removed from the bill. She acknowledged the difference between providing gas to utilities versus industrial users who might be willing to pay more, yet still allowing the industrial user to receive all the foregone royalty revenue from the state, especially when the gas might be entirely used for private sector purposes.

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Mr. Valdez responded that the only current buyers of natural gas in Alaska were utilities. He thought that Representative Hannan's hypothetical was possible, but highly unlikely due to the billions of dollars required to build a pipeline, invest in gas offshoots, and build the required infrastructure. The cost of a natural gas pipeline from the North Slope was around \$40 billion. Moving gas was an expensive proposition and it would be difficult to take the hypothetical to the extreme without modeling.

Representative Hannan wondered if gas produced in Cook Inlet near a formerly functional fertilizer plant that had an existing pipeline and structure to take in gas would be enticing to a potential client. The gas would be cheap to purchase because there would be no royalty.

Mr. Valdez responded that it was hypothetically possible but from his understanding, the utilities were the only current buyers.

Representative Hannan argued that if the utilities were the only buyers, then there was no harm in including the amendment language in the bill.

Representative Rauscher commented that he had to go to another meeting but his staff would stay.

Representative Ortiz commented that the amendment illustrated a primary problem because the bill was brought before the committee without any outside consultation on its potential impacts. He did not know if it made sense to give gas production companies a zero royalty or if a royalty was the reason why the state did not have more production in the Cook Inlet. If the royalty was the reason, he wanted to hear confirmation from an outside source that Alaska was charging outrageous royalties and there would be more production if the royalties were lowered. Due to the lateness of the hour and the lateness of the date, he thought it was unlikely that there would be such a confirmation, and he thought the assertions made in the bill were a reach. He thought there should be more consideration if Alaska was planning on giving away its gas with no royalties. Before the state made a decision, it should hear some clear, outside, independent recommendations.

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Co-Chair Edgmon did not think there was a formal analysis of casualties and change in behavior. He noted that the Alaska Gasline Development Corporation (AGDC) was about to make an important announcement that the company was going to implement a pipeline from the North Slope that might be able to sustain Cook Inlet for a long time. He wondered if building long-term contracts or a long-term debt would be palatable if the royalty was split in half. Cutting the royalty in half was generous and to implement a zero royalty would be excessive. He wondered if the legislature was giving away more than was necessary. He supported the underlying bill but thought that zeroing out the royalty was excessively generous and he did not think that choices were being made based on analysis.

Representative Josephson noted that Representative Cronk had talked about taxes, but the issue at hand was royalties. Royalties were different than taxes, which was described in a memo the committee had received previously from Emily Nauman from Legislative Legal Services (LLS). He stressed that the state could not implement a 0 percent royalty or it could be sued. The governor suggested a 5 percent royalty and the amendment proposed 6.25 percent, which was not significantly different. He recalled that the committee had heard testimony indicating that there were a few overriding interests. He wondered if moving from 25 percent total royalty to 12.5 percent would make the system economical. The original draft of the bill stated that the relief was intended to help make it easier for the gas in Alaska to be sold to Alaskan utilities, which he thought was the correct strategy.

Co-Chair Foster MAINTAINED his OBJECTION.

Representative Cronk commented that Alaska's market was small and he could not imagine drilling million-dollar wells and expecting to make a profit when there was a crisis.

Co-Chair Johnson stated that she did not have a problem with tax relief or incentives. She thought that royalty share was a different matter than taxes. Royalties took care of the state and taxes did not. She struggled with the idea of reducing royalties to zero.

Representative Coulombe commented that it was an interesting conversation because the desire for modeling seemed sudden. She was surprised by her colleagues in Anchorage because it was a known fact that more gas was needed. She thought it was more valuable to have a warm home than for the state to have more money. Reducing the cost of production was a strong incentive. She was in opposition to the amendment but appreciated the work that went into it.

Representative Galvin agreed that it was a critical issue. When a 5 percent royalty was reduced to 0 percent, there needed to be a complete understanding of why it was reduced. The cost of drilling would make it easier for industry but it was a complicated question and typically, the processing time was extensive. The question was how to distribute more oil and gas to Alaskans. She acknowledged

that she was not an expert and she appreciated DNR's work. She thought that significant fiscal changes should come with more consternation. The commissioner already had the discretion to make changes and she wondered why the bill was brought forth at the present moment.

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Representative Coulombe responded that she did not want to tell her constituents that she wanted to look into the business's books before offering royalty relief. From the perspective of a constituent, private business confidentiality was unimportant and constituents simply cared about prices and availability.

Representative Tomaszewski commented that he would not be directly impacted by the bill because Fairbanks did not have natural gas. He saw the bill as a way to prevent Southcentral from needing to turn the thermostats down again due to gas issues. There might be more cold winters in the future of the state. He was in opposition to the amendment because he supported his fellow Alaskans who lived in Southcentral and needed the gas.

Co-Chair Johnson noted that she had heard that royalties could be reduced to zero and it would not make any difference in the production or drilling of new gas. She understood that it would still not be economically feasible. She wanted to think about the situation five years and ten years in the future. The state had resources and it was important to maximize the resources. She appreciated the original bill and the suggestion to reduce the royalty percentage, but she did not think there was a reason to expand the area so significantly. Reducing the royalty down to zero would be a significant policy change and there needed to be more thought and discussion on the subject. She asked if the commissioner could offer his perspective.

[5:28:45 PM](#)

JOHN BOYLE, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, remarked that he appreciated the discussion. The perspective of the department was that time was not in the state's favor. Based on projections, the state would have a shortfall between the amount of gas that was produced and the amount of gas demanded by utilities. Action needed to

be taken as utility rates would triple or quadruple if nothing was done, and emergency shipments of gas would need to be brought in to help fill the supply gap. The discussions about royalties were similar to the discussions concerning where the gas might go. Natural gas prices were currently around \$9 per thousand cubic feet (MCF) while natural gas prices in the continental U.S. were around \$1.60 MCF. The state currently had expensive and uncompetitive gas. He thought that Cook Inlet strategies were not focused on the far future of production, but on the near future in order to make a play for time. He stressed that it was important to squeeze enough gas out of the inlet to avoid expensive imports of natural gas while working on the next pieces of the energy puzzle. The utilities in the state had made it clear that more gas was needed and it was likely that the price of gas would increase. He believed that the risk of gas being exported elsewhere was minimal.

Commissioner Boyle continued that he respected Co-Chair Johnson's comments on royalty because DNR understood how important it was that the state received its share of resources. One of the reasons royalty relief was more impactful than standard tax relief was that royalty payments impacted company cash flows differently than severance taxes. Royalty payments were paid in gross, meaning that a company had to pay its royalty share regardless of whether it was making a profit on the oil and gas it produced. He explained that companies not operating in a cash-flow-effective manner still had to pay royalties, which had a significant impact on the overall economics of the project.

Commissioner Boyle explained that companies also had to start paying royalties immediately upon beginning production and the cash flow impact of royalties was immediately apparent, which was different from severance tax which might allow some flexibility in terms of the number of payments a company needed to make. He stressed that investment choices were the most impactful decisions companies could make. He noted that DNR had modeled scenarios and had shared much of the modeling with the committee. The department was confident that a low royalty rate was the most appropriate and would incentivize more production, particularly in the short term, which was desperately needed. He thought that the department would be amenable if the committee were to contemplate a royalty

rate that was de minimis and above zero; however, there was a significant enough difference between a 1 percent royalty and a 6.25 percent royalty to see an impact on the potential for development of additional oil and gas deposits.

Commissioner Boyle remarked that companies were not clamoring to invest in Cook Inlet and the lease sales in the inlet received tepid responses. He thought it was indicative that the current fiscal structure was not conducive to fostering investment or attracting new entrants. He did not think the state could expect to see more production that would alleviate the upcoming gas shortage without some significant changes. He concluded that the department would not support the amendment.

[5:36:51 PM](#)

Co-Chair Foster noted that the amendment was the crux of the bill and he was receptive to the continuation of the discussion.

Representative Josephson understood that the focus was on the near future because the state needed to find new solutions. He assumed that Commissioner Boyle would support putting a sunset on the relief and asked if it was a fair implication.

Commissioner Boyle responded that he would agree that the focus was on increasing energy in the short term. He explained that whether he would support a sunset would depend on the details of the sunset. A potential investor might not think there would be a return on their investment in Alaska with the current royalty rate and tax structure. If the state lowered the royalty rates to become more enticing for potential investors but the return window was too short, investors might continue to be dissuaded. He thought that a short sunset window would provide relief for a while, but oil and gas projects were generally designed to be longer-term. He was cautious of a sunset that was too short and his support of it would depend on the terms of the sunset.

Representative Josephson noted that the administration had a bill that proposed a 5 percent royalty rate. He asked if he was understanding correctly that the administration now wanted the rate to be further deducted.

Commissioner Boyle responded that the department would support a royalty rate between 0 percent and 5 percent.

Representative Josephson noted that before he became a legislator, there were many credit types in the Cook Inlet, and over a decade later, the state had only just finished paying for the credits. Under Representative Coulombe's theory, the same strategy could be employed again.

Commissioner Boyle responded in the affirmative.

Representative Josephson asked if the administration's position was to focus on the royalty issue.

Commissioner Boyle responded that the department aimed to look at the most impactful and least complex tools the state had at its disposal to potentially incentivize new development. He explained that royalty quickly rose to the top of the list. Additionally, property tax was an expense that impacted companies early on in the process. As soon as companies acquired leases and equipment and began implementing improvements on the ground, companies started incurring tax liability, which had an impact on early cash flows and project economics. The department had analyzed a vast array of issues and had talked about overriding royalty interests as well as the overall expenses related to operating in Cook Inlet.

Commissioner Boyle continued that in order to facilitate new development, the state had made development more attractive by implementing cash credits and bigger incentives. He thought the legislature could explore new potential programs but the department was trying to strike the right balance between fiscal prudence and providing energy for Alaskans. He thought that royalty relief for new oil and gas development projects was fiscally prudent. The bill was a less aggressive step but if the legislature wanted to be more aggressive, the department would be happy to provide its thoughts.

[5:43:30 PM](#)

Representative Galvin remarked that there were concerns that the royalty relief was a "shot in the dark." She asked if Commissioner Boyle could offer some reassurance that the royalty relief would incentivize companies to provide

significant energy relief. She asked Commissioner Boyle how certain he was that the bill would have the desired effect.

Commissioner Boyle responded that it was impossible to be 100 percent certain about anything, but he felt confident that there would be a gas shortage if the status quo continued. The question was how much relief was necessary to incentivize more investment. There were many issues that impacted the operators in Cook Inlet and affected operators' ability to produce more gas. He was confident that the department had modeled the general economic parameters that projects would face and the impacts of different tax rates and royalty rates. The department was confident that lowering the royalty rate would increase the rates of return for companies. Reducing the rate from 12.5 percent to 5 percent or less would make enough of a difference to spur new investment and additional production. He noted that the modeling was predicated on each company's particular circumstances. By lowering royalty rates, projects would be more attractive from an investment standpoint. He did not think anyone could say with 100 percent certainty, but he thought it should incentivize development.

Representative Galvin understood that a royalty rate of 5 percent or less would incentivize development and that the department had conversations with large companies on the reduction. She thought that in ten years, if companies were producing and Alaskans were consuming, the companies would no longer need assistance. Determining the length of time that companies would need assistance to incentivize investment was important. She agreed that the legislature wanted to show Alaskans that oil and gas production was important. She thought it was difficult to lack certainty and noted that the department did not have any contracts with companies. She wondered if the legislature should have more information before making a decision. She wanted to have more certainty that what the legislature did would make a difference.

[5:50:25 PM](#)

AT EASE

[6:29:09 PM](#)

RECONVENED

Co-Chair Foster relayed that there was a conceptual amendment to Amendment 3.

6:30:02 PM

Co-Chair Johnson MOVED conceptual Amendment 1 to Amendment 3.

Representative Ortiz OBJECTED for discussion.

Co-Chair Johnson explained that the amendment was as follows:

On page 1, line 3 of amendment 3 Delete "6.25" and insert "3". On page 1, line 5 through 7 of the amendment, delete all material and insert: "Sec.3 AS 38.05.180(mm) and 38.05.180(nn) are repealed January 1, 2035. Renumber the following bill sections accordingly.

Representative Hannan asked for clarification that the 3 percent royalty would never be sunsetted.

Co-Chair Johnson responded in the affirmative.

Co-Chair Edgmon stood by the bill's underlying effort. He remarked that it was difficult to craft a bill based on hypotheticals. He noted that of all of the tax and oil incentive bills he had worked on, HB 223 was the bill with the least amount of analysis. He suggested that he knew what the Senate would do with the bill and questioned what the purpose was of the committee hearing the bill into the evening. He thought the committee could spend hours going through subjective data and did not know what would realistically be different if the royalty rate was 3 percent, 4 percent, 5 percent, or 6 percent. He understood that the department had done modeling but he questioned what was happening with the bill in general.

Representative Josephson asked Co-Chair Johnson if the 3 percent rate would continue into perpetuity if the conceptual amendment were to pass.

Co-Chair Johnson responded that it would continue for 10 years.

Representative Josephson noted that royalties could typically not be increased and that it was a fixed contract. Royalties could typically not be increased and the royalty was a contract that was fixed forever, such as a landlord-tenant agreement. The conceptual amendment proposed that the 0 percent royalty would become a 3 percent royalty, which was not possible. He asked what the royalty on new gas would be as of January 2, 2035.

[6:35:34 PM](#)

Mr. Crowther responded that the way the department understood the conceptual amendment was that the provisions of the bill would be repealed in 2035, which meant that the ability to accept a payment or make payment of a lower royalty for new projects would end. All parties that received statutory eligibility prior to the repeal would be eligible for lower royalty of 3 percent if the conceptual amendment were to pass for the 10 years following the commencement of production. The department understood the conceptual amendment to mean that until 2035, a party had the ability to begin commercial production and begin receiving the 3 percent royalty rate for 10 years. After January 1, 2035, a party could no longer begin receiving a lower royalty rate than what was already indicated in the lease.

Representative Josephson shared his understanding that there would be a 10-year window to take advantage of the lower royalty rate and if an entity utilized it, the royalty rate would be 3 percent in perpetuity.

Mr. Crowther responded that he understood that the conceptual amendment would be to change the 0 percent royalty that was currently in the bill to 3 percent and make the rate available for 10 years.

Representative Josephson asked if an entity that opted in would be able to enjoy the lower rate forever.

Mr. Crowther responded that after the 10 years passed, the rate would revert back to the 12.5 percent rate.

Co-Chair Foster noted that Representative Jesse Sumner and Representative Tom McKay were in the audience.

Representative Stapp suggested that if there was a 10-year abatement of royalty that would eventually revert back to 12.5 percent, it would be a structural risk that would disincentive production. He thought it would be worse than the current system and companies could theoretically be "on the hook" for past operating costs. He agreed with Co-Chair Edgmon and questioned why the committee was spending the evening discussing the bill.

[6:38:46 PM](#)

Co-Chair Johnson noted that one of the reasons that 10 years made sense as a window was because the gas production process was faster than the oil process. She suggested that Commissioner Boyle elaborate.

Commissioner Boyle responded that he believed that a 10-year window would be sufficient to enable a company to recoup its initial investment and make its return. He thought the time frame would be long enough to avoid a significant risk of disincentivizing investment.

Representative Stapp asked if the department already had the authority to adjust royalty rates. He wondered if the department could already adjust the rates to 3 percent on existing assets and if it could, he asked what the timeframe for investment would be.

Commissioner Boyle responded that the commissioner had the authority to adjust royalty rates on a case-by-case basis. He recalled that in the history of DNR, rates had successfully been changed only twice.

Mr. Crowther added that such an adjustment had happened a handful of other times, but it had only happened twice in recent history.

Commissioner Boyle noted that it was a complex process and there was a lot of analysis and particular project modeling. There was a lot of back-and-forth between the department and the project applicant and historically the processes took over a year. The intent was to send a message to investors that the economic climate was improved and to ultimately deliver more gas sooner to Southcentral.

Representative Stapp understood that modeling was possible and had been done in the past. He thought that many of the

committee members wanted modeling to be done. He asked if the conceptual amendment would make the process faster.

Commissioner Boyle responded that the amendment would make the process faster and more effective. The operators had testified that royalty relief would help incentivize the drilling of more wells. The department was in support of the conceptual amendment and the message it sent to investors. He thought the amendment would result in not only new production but in lower-cost energy in the Railbelt.

Representative Stapp asked why action had not been taken yet. He understood the purpose of the amendment was to expedite the process, but wondered why the process had not begun already since it was within the purview of the department.

[6:43:31 PM](#)

Commissioner Boyle responded that to utilize the existing mechanism for royalty relief, the department would need to negotiate with each company on a project-by-project basis. The process would not necessarily be holistic, but would become about specific projects with specific economics that would need to be sufficiently progressed for companies to have the necessary information to provide to the department in order for it to make a determination. The department wanted all operators to progress in a way that would help incentivize or facilitate additional investment. The process would be complex, timely, and unwieldy, and the department would not be confident that it could see that process through to completion in a way that would bring more production online within the window.

Representative Galvin appreciated the amendment and highlighted that at least one company had shared that the royalty rate was important. She also understood that the department originally suggested a 5 percent rate and the department had likely consulted with multiple companies about the desired rate. She would be amenable to changing the rate to 5 percent, and it was important to offer as much assistance as possible to companies at the beginning of a project. She had an amendment that had not yet been discussed that would propose a five-year sunset, but she realized that she should be open to a longer timeframe. She suggested changing the sunset date to 2033 because the

state's biggest contract was expiring that year. If the state had not incentivized new production by 2033, she did not think the additional two years would make a difference. She asked if she could offer a friendly amendment to the conceptual amendment.

Co-Chair Foster responded that the committee could not make an amendment to a conceptual amendment and that it would need to be a separate amendment.

[6:48:58 PM](#)

Co-Chair Edgmon remarked that he was trying to think about the issue through a business model perspective. The initial cost of drilling and exploring would not be covered by the royalty as the gas needed to be discovered before a company could receive relief. The utilities were signing long-term contracts with imported natural gas entities and he wondered what the effect would be on business profiles in an already highly marginal area. He appreciated the work that had gone into crafting amendments that sought to find a middle ground. He did not know what modeling had been done and thought that the issues should be examined in more depth than what the committee could do in the current meeting. He asked what the modeling done internally by the department suggested to prospective investors.

Commissioner Boyle responded that there were a number of different commercial elements and a certain amount of complexity involved in any analysis as it related to what may or may not impact the economics of a particular project. The department generally thought that Cook Inlet natural gas would be more competitive from a price perspective than imported LNG. The primary focus of major natural gas suppliers was sourcing the least expensive natural gas as possible. The utilities were confident that natural gas suppliers would begin to produce new gas within a certain period of time and would be less likely to sign long-term contracts with imported LNG entities.

Commissioner Boyle stated that decisions needed to be made soon, which was why it was important to pass the bill quickly and make it as attractive as possible to potential investors. He relayed that the state could spend years analyzing the modeling and bringing in new prognosticators, but the utilities had a finite window and the state needed to take action as soon as possible to ensure that the

utilities had enough energy to provide to Alaskans. He thought that domestically produced natural gas would outcompete any imports and that incentivizing production was the best decision the state could make. He thought the bill might push companies to invest and bring new gas online in a way that showed the utilities that there was a path forward for domestically produced gas.

Co-Chair Edgmon felt like the committee was trying to "squeeze more blood out of a turnip." He did not think the utilities would wait much longer for the situation to change. The committee had heard from utilities that they had a fiduciary duty to provide the most reliable and affordable power to Alaskans as possible. He was aware that AGDC was working on a promising solution. He did not think the bill would pass in the current year, and the committee did not have a complete picture of the situation. The more he considered the bill, the more questions he had, and he would like to have more information before making any decisions.

[6:55:09 PM](#)

Representative Josephson asked if any of the state attorneys were online.

Co-Chair Foster was not aware of anyone.

Representative Josephson was concerned that there were two different answers in the meeting: one stated that the 12.5 percent rate could be reduced to 3 percent and the rate could be enjoyed into perpetuity, and the other answer stated that all reduced rates would end in 2035 and revert to 12.5 percent. He understood that the commissioner could choose lease terms under the law. He wanted it clarified whether the reduced percentage could be enjoyed into perpetuity. He shared that he just received a note that indicated that there was a legal representative in the audience.

Co-Chair Foster asked if Mr. Crowther had any comments.

Mr. Crowther responded that there were two material dates for interested producers under the conceptual amendment. The first date was from the present day until 2035, during which time producers could initiate receiving a 3 percent royalty if production had already begun. After 2035,

producers would no longer be eligible to begin receiving royalty. If production began at any time during the 10-year period, producers would be eligible for the reduced rate for 10 years starting at the date at which production began. At the conclusion of the 10-year period, all producers would revert to the underlying lease terms.

Representative Josephson understood that the benefit could extend up to 20 years because as long as the producer began production before 2035, the producer would be eligible for the reduced rate. For example, if production began on December 31, 2034, the producer would be eligible for the credit for 10 years from that date. He asked if his understanding was correct.

Mr. Crowther responded that if production began by 2035, the producer would be eligible for the reduced royalty rate.

[6:58:46 PM](#)

Representative Coulombe asked how gas for consumers would be affected if the bill failed.

Commissioner Boyle responded that he was hesitant to make predictions, but based on the department's current projections, there would be a shortfall between supply and demand of natural gas within the next two years if there were no changes. The question was what could be done in the meantime. He understood that there was testimony from ENSTAR that building out the necessary infrastructure for a large-scale LNG import project would not be possible until 2030 or beyond. The process was not a quick and easy solution. The most likely scenario was that the utilities would need to contract with one-off LNG shipments that would transport gasification equipment into a storage facility.

Commissioner Boyle questioned whether the state had enough available storage. The LNG cargo would need to be transported to the facility, unloaded, gasified, and injected into the storage reservoir in order to be used throughout the year to make up for the shortfall. The cost of LNG would be much higher than what the state was currently paying. If no action was taken, there would be significant increases to utility rates as new gas imports were factored in, which would continue to put upward

pressure on utility costs. He added that in the previous winter, the state was close to having a significant energy crisis in Southcentral because the producing wells out of the storage facilities were barely keeping up with demand. If the situation happened again, it could push the state into a full energy crisis.

Representative Coulombe asked for clarification that LNG was more expensive than Cook Inlet gas. She asked why renewable energy could not simply be put online to fill the gap.

Commissioner Boyle responded that any other energy option would take years to implement, whether it was renewables, a gas line, wind or solar farms, or anything else. He agreed that the state needed to be working on implementing other energy options, but the most pressing issue was getting more gas into the system as quickly as possible, and nothing was as quick and cost-effective as incentivizing more Cook Inlet gas.

Co-Chair Johnson concluded that gas production needed to be increased in Cook Inlet. She did not think that the conceptual amendment would cause gas production in any other part of the state to be curtailed.

[7:05:14 PM](#)

AT EASE

[7:06:23 PM](#)

RECONVENED

Co-Chair Foster asked if there was an objection to the conceptual amendment.

Representative Stapp OBJECTED.

[7:06:57 PM](#)

A roll call vote was taken on the motion to adopt conceptual Amendment 1 to Amendment 3.

IN FAVOR: Josephson, Tomaszewski, Hannan, Coulombe, Cronk, Johnson

OPPOSED: Stapp, Galvin, Ortiz, Edgmon, Foster

The MOTION PASSED (6/5). There being NO further OBJECTION, conceptual Amendment 1 to Amendment 3 was ADOPTED.

[7:08:14 PM](#)

Co-Chair Foster relayed that Amendment 3 as amended was now back before the committee.

Co-Chair Edgmon appreciated the work that had gone into the bill but did not think he had enough information to vote on it, which was why he would be voting against the bill.

Representative Ortiz MAINTAINED the OBJECTION.

Representative Galvin relayed that she would like to propose another conceptual amendment.

[7:09:06 PM](#)

AT EASE

[7:28:40 PM](#)

RECONVENED

Representative Galvin MOVED conceptual Amendment 2 to Amendment 3.

Representative Cronk OBJECTED.

Representative Galvin explained that the conceptual amendment was as follows:

On page 1, line 3 of the amendment
Delete "3" and insert "4"

On page 1, line 5/6
Delete "2035" and insert "2033"

[7:30:26 PM](#)

Representative Josephson noted that the amendment title should say CSHB(FIN) and not CSHB(RES).

Co-Chair Foster acknowledged that it was an error.

Representative Ortiz MAINTAINED the OBJECTION.

[7:31:25 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Hannan, Galvin, Ortiz, Josephson
OPPOSED: Coulombe, Tomaszewski, Cronk, Stapp, Johnson,
Edgmon, Foster

The MOTION to adopt conceptual Amendment 2 to Amendment 3
FAILED (4/7).

[7:32:25 PM](#)

Co-Chair Foster explained that Amendment 3 as amended was
before the committee. He asked Co-Chair Johnson to remind
the committee what the amendment as amended would do.

Co-Chair Johnson explained that conceptual Amendment 1
would change the royalty rate to 3 percent and implement a
10-year sunset. Additionally, any producer that began oil
production within the 10-year period would be permitted an
additional 10-year period to produce at the 3 percent rate.
The royalty rate would return back to the original 12.5
percent after the 10-year period had elapsed.

Co-Chair Edgmon was unsure if he should vote for the
amendment or if he should oppose it on principle. He did
not think he could make an educated policy decision.

Representative Ortiz OBJECTED.

[7:34:42 PM](#)

A roll call vote was taken on the motion to adopt Amendment
3 as amended.

IN FAVOR: Josephson, Coulombe, Galvin, Hannah, Johnson,
Edgmon
OPPOSED: Tomaszewski, Stapp, Foster, Cronk, Ortiz

The MOTION PASSED (6/5). There being NO further OBJECTION,
Amendment 3 as amended was ADOPTED.

[7:35:53 PM](#)

Representative Coulombe MOVED to ADOPT Amendment 4, 33-
LS0886\D.8 (copy on file):

Page 1, line 8:

Delete "50 percent of the minimum fixed royalty share"

Insert "6.25 percent"

Representative Hannan OBJECTED for discussion.

Representative Coulombe explained the amendment, which was requested by DNR. The amendment would reduce ambiguity about the intended royalty rate for qualified new oil. The amendment would set the royalty on qualified new oil at 6.25 percent instead of 50 percent of the minimum fixed royalty share.

[7:36:27 PM](#)

Mr. Valdez explained that the amendment would simply clarify the minimum fixed royalty share and that Representative Rauscher would support the amendment.

Representative Galvin asked for clarification that the amendment would not affect oil.

Mr. Valdez responded in the affirmative.

Representative Hannan asked DNR if 3 percent was the minimum royalty rate on new oil. The bill had been expanded to include all areas except the North Slope. She was concerned about the discrepancies between royalty rates.

Mr. Crowther responded that the department could be authorized to offer leases at 12.5 percent as the base royalty. He was not aware of leases in any area aside from Cook Inlet. There were two or three leases in Cook Inlet and one had a 15 percent royalty rate and the other had a 16.2 percent royalty rate. Otherwise, the amendment would not change the bill and would simply provide consistency.

Representative Hannan remarked that the committee had heard a couple of examples of producers in Cook Inlet that would not be subject to the same royalty rate. She asked what the usual terms would be for minimum royalty. She asked whether the rate would be 12.5 percent or if it would depend on when the oil was developed.

Mr. Crowther responded that the 12.5 percent minimum royalty would be the terms of new leases. Under the

legislation, a producer would be eligible if it also qualified for the 6.25 percent rate.

Representative Hannan asked if there was concern from oil producers that royalty rates were preventing new production. She understood that gas producers had indicated that it was an issue, but she had not heard the same from oil producers.

Mr. Crowther responded that the complex geologic and commercial realities of developing a project anywhere outside of Cook Inlet and the North Slope had prevented the projects from starting. He thought that royalty was a key commercial component and could potentially incentivize development in some areas, but it was also possible that development would not proceed in any event.

[7:40:38 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Galvin, Cronk, Ortiz, Stapp, Coulombe, Johnson, Foster, Tomaszewski, Edgmon
OPPOSED: Hannan, Josephson

The MOTION PASSED (9/2). There being NO further OBJECTION, Amendment 4 was ADOPTED.

[7:41:30 PM](#)

Representative Coulombe MOVED to ADOPT Amendment 5, 33-LS0886\D.7 (copy on file):

Page 1, line 8:
Delete "minimum fixed"

Representative Ortiz OBJECTED for discussion.

Representative Coulombe explained the amendment came at the request of the governor to fix a drafting error. She noted that DNR had indicated that it was unclear what the term "minimum fixed" meant.

Representative Hannan was confused because Amendment 4 had passed and had already deleted the words that would be deleted by Amendment 5, making it no longer relevant.

Representative Coulombe WITHDREW Amendment 5.

7:43:01 PM

Representative Josephson MOVED to ADOPT Amendment 6, 33-LS0886\D.15 (Nauman, 4/26/24) (copy on file):

Page 1, line 1:
Delete "oil and"

Page 1, lines 8 - 9:
Delete "and 50 percent of the minimum fixed royalty share for qualified new oil"

Page 2, line 2:
Delete "(1)"

Page 2, line 3:
Delete "(A)"
Insert "(1)"

Page 2, line 5:
Delete "(B)"
Insert "(2)"

Page 2, line 7:
Delete "(C)"
Insert "(3)"

Page 2, line 9:
Delete ";"
Insert "."

Page 2, lines 10 - 17:
Delete all material.

Representative Stapp OBJECTED for discussion.

Representative Josephson explained the amendment. There was not a lot of oil in Cook Inlet, but oil was often found when searching for gas and vice versa. The problem was not a gas problem it was an oil problem.

Representative Stapp remarked that he was confused by the amendments to the bill and noted that members from Southcentral kept voting in opposition to each other. He understood that DNR had indicated that the wells in Cook

Inlet were mixed wells and contained both gas and oil. He was not certain why there were two separate royalties or what the implications of the difference would be. He asked if payment would be required for both gas and oil if there was a higher royalty on an oil well that also contained gas.

Mr. Valdez responded that the gas pulled from a particular lease had a royalty and tax rate separate from the oil pulled from the same royalty and lease. He highlighted that the oil from Cook Inlet, which was sold at a higher rate than the gas, was intended for use in Alaska only.

[7:45:41 PM](#)

Representative Stapp asked why a large royalty on oil was being proposed if the oil was only being utilized by the Alaskan consumer.

Commissioner Boyle responded that incentivizing oil was an important component of incentivizing gas. There was a significant amount of gas in place but also a significant amount of oil that could be produced if a platform were to be built. A significant driver of gas production in Cook Inlet was companies looking for oil. The existence of and desire for the underlying oil was what had helped provide the gas. As the oil reservoirs had depleted and finding new pools of oil became increasingly more challenging, there was a corresponding decline in the amount of gas that was produced. He thought that incentivizing the oil was a key element to incentivizing gas because a company would be sensitive to oil and gas rates as it evaluated the overall project economics. There were oil and gas deposits that were co-located and would be brought into production if the incentives were sufficient.

Mr. Crowther noted that the 3 percent rate for gas was chosen because the gas commodity would not be incentivized like the oil commodity was; however, the incentive for oil was also critical for development.

Representative Stapp asked why Representative Josephson had offered an amendment that would hurt his constituents by increasing oil prices.

Representative Galvin asked if royalty relief in Cook Inlet would be ended if oil was exported from Middle Earth if the bill were to pass as amended.

Mr. Valdez responded that there would be a following amendment that would add clarity.

Representative Galvin asked how much of the projections of undiscovered gas was expected to be produced as a secondary result of oil production and how much was expected to be a primary gas field.

Mr. Crowther responded that the Cosmopolitan Oil and Gas Field was a large oil field and could potentially result in huge contributions of gas. Some fields were gas-only but could also potentially target oil and deeper horizons. Both prospects could benefit from the reduced royalty rates and additional prospects would be advantaged as well.

Representative Galvin understood that there could be an advantageous opportunity for a large oil field and an opportunity for Alaska to recoup some potential royalty. It could be a big deal for both the producer and for Alaska. She wanted to ensure that the committee understood the scope of the bill because it had not discussed the bill extensively. She did not think members understood that the bill could result in increased oil production, which was good for Alaska. She thought it was important for Alaska to benefit as much as possible while not pushing companies away.

[7:51:50 PM](#)

Mr. Crowther responded that there were currently approximately 7,000 to 8,000 barrels per day being produced in Cook Inlet, which was all being consumed in-state through the Marathon Refinery. There were potential developments of additional oil, such as the Cosmopolitan Field. He warned against characterizing resources as large or small because the resources all had different attributes relative to the market. The fields would materially contribute to in-state use and extend the availability from an oil production context. He noted that Cook Inlet oil had declined and additional fields would not shift the paradigm of oil production in a way that would cause a material change in the market.

Representative Galvin asked if producers would also receive royalty relief on gas as well as oil if producers began producing gas at the Cosmopolitan Field.

Mr. Crowther responded that the bill would include the possibility for production to be a qualified new oil or a qualified new gas. If a shallow well produced qualified new gas it would be eligible, and if a horizontal well went deeper into the oil, it would potentially qualify. There was potential additional well schematics that could result in qualified new oil at the Cosmopolitan Field.

Representative Galvin understood that 7,000 barrels was not substantial, but the expansion potential was not known. She asked if there was any information on the expansion potential.

Mr. Crowther suggested that Mr. Nottingham speak to the potential full field development at Cosmopolitan. He noted that development was not approved under current terms, which was strong evidence that whether the development was oil-only, oil and gas, or gas-only, it was not competitive.

[7:54:19 PM](#)

Mr. Nottingham responded that he did not know what the exact rate would be at Cosmopolitan under full development, but he could follow up with the estimates. While it was a significant development, it probably would not dramatically change the paradigm of oil production in Cook Inlet.

Representative Galvin appreciated understanding more of the context. The scope was not fully known, even with the amendment, but she thought that a smaller company might find the relief helpful. She asked if her understanding was correct.

Commissioner Boyle responded that the relief made a difference to Cosmopolitan. He explained that DNR was trying to target new production and improve the economics at Cosmopolitan. He relayed that Cosmopolitan had drilled a few low-producing wells from onshore to target the oil horizon that largely lay offshore. If more complex horizontal wells were drilled, the difference would be more significant. Every barrel of oil that could be produced in Cook Inlet was important because the oil had value-added processing in-state. The oil that was at gas station pumps

in the state generally came from Cook Inlet, which illustrated the benefit trickling out amongst the broader economy. Every additional barrel of Cook Inlet oil was important.

[7:57:46 PM](#)

Representative Ortiz asked if there would be a potential future implication on the development of oil outside of Cook Inlet if the royalty rate for oil in Cook Inlet was lowered.

Commissioner Boyle responded that he did not see it being a factor. He did not think it would dissuade companies from investing in other areas in Alaska.

Representative Ortiz responded that he did not mean to imply that a lower rate would dissuade investment, but he was curious if a company would use Cook Inlet's lower rate as leverage to ask the state for a better royalty rate.

Commissioner Boyle responded that the legislature was a good "stage gate" in terms of holding the line on certain terms in which oil and gas was offered across the state. He was fully confident that the legislature would make a well-informed decision.

Representative Josephson was concerned because the hearing was becoming highly political. He had heard comments wondering how the legislature could do anything other than help the citizens of Anchorage and other comments suggesting that he was personally increasing the prices of gas. He was disturbed by the comments. He had just happily voted in favor of reducing royalty rates from 12.5 percent to 3 percent. He was puzzled by the divide in Anchorage. He was told that there was a gas crisis, not an oil crisis. The commissioner had made a compelling argument, but his amendment intended to solve the gas crisis.

Representative Cronk MAINTAINED the OBJECTION.

[8:01:30 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Josephson, Edgmon, Foster, Stapp, Hannan, Galvin, Ortiz, Johnson

OPPOSED: Coulombe, Tomaszewski, Cronk

The MOTION PASSED (8/3). There being NO further OBJECTION, Amendment 6 was ADOPTED.

[Note: action on Amendment 6 was rescinded later in the meeting and the amendment failed to pass on a vote of 5/6 at 9:32 p.m.]

[8:02:29 PM](#)

Representative Coulombe MOVED to ADOPT Amendment 7, 33-0886\D.6 (Nauman, 4/25/24) (copy on file):

Page 1, line 10, following "applies":

Insert "to qualified new gas or qualified new oil from a lease"

Page 1, line 11, following "production":

Insert "of the qualified new gas or qualified new oil"

Page 1, lines 13 - 14:

Delete "oil or gas produced from the Cook Inlet sedimentary basin"

Insert "the qualified new gas or qualified new oil"

Representative Hannan OBJECTED for discussion.

Representative Coulombe explained that the amendment came at the request of DNR and would clarify that the triggers terminating the royalty reduction only applied to qualified oil and gas receiving the benefits.

Representative Hannan understood that Amendment 6 had just been adopted and would delete occurrences of "oil" in the bill, while Amendment 7 would insert oil back into the bill.

[8:03:43 PM](#)

AT EASE

[8:04:41 PM](#)

RECONVENED

Representative Coulombe WITHDREW Amendment 7 (copy on file).

Representative Josephson WITHDREW Amendment 8 (copy on file).

[8:05:43 PM](#)

AT EASE

[8:23:03 PM](#)

RECONVENED

Co-Chair Foster noted that the committee had about six amendments left. He would take another break as some members had not yet returned.

[8:25:55 PM](#)

AT EASE

[8:26:54 PM](#)

RECONVENED

Representative Galvin MOVED to ADOPT Amendment 9, 33-LS0886\D.19 (copy on file):

Page 1, line 11:

Delete "10"

Insert "five"

Page 1, line 12, following "2024":

Insert ", except that the commissioner may extend the royalty reduction under this paragraph an additional five years if, after the third year of commercial production, the commissioner determines that extending the royalty reduction is in the best interest of the state"

Representative Cronk OBJECTED for discussion.

Representative Galvin explained that the amendment would change the sunset from 10 years to 5 years.

[8:28:02 PM](#)

Representative Stapp remarked that earlier in the meeting, Representative Galvin had suggested changing the sunset to eight years. He asked why she now suggested that the sunset should be changed to five years.

Representative Galvin noted that when she suggested changing the sunset to eight years, she was doing so because she thought it would pass. In her conversations with consultants, she understood that five to six years was a reasonable amount of time. She wanted to ensure that the commissioner had the opportunity to do what was best for Alaska.

Mr. Valdez responded that he thought the amendment strayed away from the intent of the bill, which was to create certainty and a roadmap for investors that were investing millions of dollars into risky assets. He thought there needed to be certainty for companies if the state wanted to incentivize more gas production.

Commissioner Boyle agreed with Mr. Valdez's statements. He appreciated the intent of the amendment and the focus on being prudent and wise stewards of the state's resources. He thought that the inherent turnover of commissioners contributed to uncertainty, and he was biased towards implementing a clear and defined sunset period that would offer more certainty to companies.

Representative Galvin responded that she disagreed that the amendment would not provide permanent certainty. The amendment would provide certainty for five years and an extension for another five years. She thought it was important to consider the economics of the oil and gas fields. She understood that the state would be allowing for a bigger incentive than it usually did, but she was suggesting that the state offer a large incentive first, then decide what the next incentive should be based on the effects of the first incentive. She explained that she misspoke and that the amendment would not be implementing a sunset, but a duration. The sunset would still be 2035. She acknowledged that it was complex, but she hoped that the amendment was clear.

[Although not explicitly stated, the objection was maintained.]

[8:33:11 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Galvin, Ortiz, Josephson, Hannan

OPPOSED: Coulombe, Tomaszewski, Cronk, Stapp, Johnson, Edgmon, Foster

The MOTION to adopt Amendment 9 FAILED (4/7).

[8:33:58 PM](#)

Representative Josephson MOVED to ADOPT Amendment 10, 33-LS0886\D.17 (Nauman, 4/26/24) (copy on file):

Page 1, line 13, following "produced":
Insert "by the lessee"

Representative Cronk OBJECTED for discussion.

Representative Josephson explained the amendment. He understood that the bill as written stated that royalty reduction for all new gas participants would end when any single gas participant shipped any commercial quantity of oil or gas produced from the Cook Inlet sedimentary basin. He did not think the legislature wanted to enact what was written in the bill because it meant that the lessee enjoying the royalty reduction could not ship new gas out of state or it would lose the royalty reduction.

Mr. Valdez responded that in discussions with DNR, the amendment would make sense, especially in light of Amendment 7 not being adopted. He thought the amendment would clarify the intent of the bill and he would support it.

Commissioner Boyle responded that he would also support Amendment 10.

Representative Cronk WITHDREW the OBJECTION.

Representative Tomaszewski asked if an entity other than Alaska LNG could produce oil or gas and not be subject to the tax royalty.

Mr. Crowther responded that the amendment clarified the point of the bill. He explained that the amendment would confirm the date on which a commercial quantity of gas produced by LNG in the Cook Inlet sedimentary basin was shipped out of state. The benefit would not be lost if other companies shipped out of state.

[8:37:24 PM](#)

Representative Galvin asked if the relief would not end if the market changed and oil and gas were not exported from Cook Inlet.

Mr. Crowther responded that the department understood the intent of the bill sponsor and it made sense for an investor to receive the benefit of the relief as long as the investor was focused on providing energy to Alaskans. The amendment seemed to continue the relief beyond the point of providing energy to Alaskans. He thought there was a misunderstanding.

Representative Galvin remarked that it seemed like there would be a significant change in the market if an LNG export facility opened up.

Representative Josephson explained that qualified new gas was the topic. The department and sponsor agreed that they wanted to keep new oil in the state, especially if the company was receiving a reduced royalty rate.

There being NO further OBJECTION, Amendment 10 was ADOPTED.

[8:39:12 PM](#)

AT EASE

[8:39:58 PM](#)

RECONVENED

Representative Coulombe MOVED to ADOPT Amendment 11, 33-LS0886\D.9 (copy on file):

Page 2, lines 5 - 6:

Delete "has previously produced gas, but did not produce gas during calendar year 2024"

Insert "the commissioner determines has not produced gas during the preceding six months but that has previously produced gas"

Page 2, lines 13 - 14:

Delete "has previously produced oil, but did not produce oil during calendar year 2024"

Insert "the commissioner determines has not produced oil during the preceding six months but that has previously produced oil"

Representative Josephson OBJECTED for discussion.

Representative Coulombe explained that she wanted to move a conceptual amendment. The second part of the amendment no longer applied due to the passage of other amendments.

Representative Coulombe MOVED conceptual Amendment 1 to Amendment 11. The amendment would delete lines 6 through 11 of Amendment 11 [pertaining to page 2, lines 13 through 14 of the bill].

There being NO OBJECTION, conceptual Amendment 1 to Amendment 11 was ADOPTED.

8:41:03 PM

Representative Coulombe explained that Amendment 11 as amended would revise the second of the three ways in which oil and gas could qualify as new in order to receive the royalty reduction. The change would more thoroughly reflect the intent of the bill to drive new production in Cook Inlet. She noted that the amendment was at the request of DNR.

Representative Josephson remarked that he did not have a problem with the amendment unless a producer deliberately suspended production in order to become eligible for the lower royalty.

Mr. Crowther replied that he viewed the scenario as extremely unlikely. The amendment stated that it applied to producers that had not produced oil or gas for six months, which meant that a producer could not simply close a well for a day, a week, or even a month and then become eligible for the royalty. Additionally, existing wells would see significant decline curves as all of the currently operating producers could potentially qualify under the bill for relief.

Representative Hannan asked if there were any producers that had stopped production in Cook Inlet within the last six months.

Mr. Crowther responded in the negative.

Representative Hannan asked if there were any producers that had stopped production in Cook Inlet within the last 12 months.

Mr. Crowther responded that there had been some fields that had been decommissioned in recent years, but not in the last 12 months.

Co-Chair Edgmon understood that Mr. Crowther stated that Representative Hannan's hypothetical was unlikely, but he wondered if a scenario could arise. There was discussion in a presentation in April about reducing royalty rates on undiscovered or offline fields. He thought it was a judgment call and he wanted to adhere to the recommendation of the department.

Commissioner Boyle responded that if companies were not producing oil and gas, the companies were also not collecting revenue. He could not think of many scenarios in which a company would sever itself from cash flow in the hopes that it might also be able to produce in the future under new terms.

[8:44:55 PM](#)

Co-Chair Foster noted that Representative Rauscher had returned and was in the audience.

Representative Josephson WITHDREW the OBJECTION. There being NO further OBJECTION, Amendment 11 was ADOPTED as amended.

[8:45:26 PM](#)

Representative Coulombe MOVED to ADOPT Amendment 12, 33-LS0886\D.10 (Nauman, 4/25/24) (copy on file):

Page 2, line 9:
Delete "economically"

Page 2, line 17:
Delete "economically"

Representative Josephson OBJECTED for discussion.

Representative Coulombe explained that the amendment was brought forth at the request of DNR and aimed to clarify

the term "economically." The department was concerned that the term might confuse the bill with other royalty provisions and statutes and risk lengthening the associated timelines.

Mr. Crowther noted that lines 4 and 5 of Amendment 12 referenced language that had been struck from the bill. The term "economically" referenced the economic feasibility of oil production, and he wanted to note that there were multiple reasons why production might not be feasible, such as geological and technical variables. The economics were a critical part, but the technical feasibility was an important driver.

Representative Hannan was confused because there had been earlier references that the bill was economic relief, but nothing in the bill changed the technology or geology. She did not think the technological or geological factors made for an economic issue. She was confused as to why the term economic was being used.

Mr. Crowther responded that the bill was about bringing forward new supplies of natural gas to impact the economics in three categories: fields that were not producing at all, fields that had been offline for six months, and areas that were not economically reachable from current operations. The amendment would clarify the third category and impact areas that were not geologically, commercially, economically, or technically reachable. The department did not view the amendment as a major substantive change, but simply as a change to the third category. He provided an example of the third category where an operator had to drill a new well because they were producing from an existing platform but could not reach or drain a particular part of the field because of the nature of the pressure in a reservoir. He thought the situation could be considered not economically feasible because of the cost of the new well. He thought the amendment would make the bill clearer and inclusive of geological, technical, and economic barriers.

[Although not explicitly stated, the objection was maintained.]

[8:49:28 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Cronk, Galvin, Tomaszewski, Stapp, Ortiz,
Coulombe, Edgmon, Foster

OPPOSED: Hannan, Josephson

Co-Chair Johnson was absent from the vote.

The MOTION PASSED (8/2). There being NO further OBJECTION,
Amendment 12 was ADOPTED.

8:50:20 PM

Representative Stapp MOVED to ADOPT Amendment 13, 33-
LS0886\D.12 (Nauman, 4/25/24) (copy on file):

Page 2, following line 17:

Insert a new subsection to read:

"(oo) Notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease or an existing royalty settlement agreement, for gas that is produced from leases that include land north of 68 degrees North latitude and that is subsequently liquefied or used in the liquefaction or transportation process, the lessee shall pay a royalty of zero percent if the lessee agrees to sell the gas to a publicly owned utility or a utility regulated under AS 42.05 at a rate that reflects the discounted royalty rate provided under this subsection. The royalty rate under this subsection applies until the earlier of either

(1) 10 years following the first commercial use of liquefied natural gas paying a royalty rate under this subsection; or

(2) the date on which a commercial quantity of liquefied natural gas produced from the leases that include land north of 68 degrees North latitude is shipped out of the state."

Representative Stapp MOVED to ADOPT conceptual Amendment 1 to Amendment 13 (copy on file):

Page 1, line 14, following "leases":

Insert the following:

"receiving the royalty rate under this subsection."

Co-Chair Foster OBJECTED for discussion.

Representative Stapp explained conceptual Amendment 1 to Amendment 13. He explained that the language in the conceptual amendment would clarify that leases that were receiving the specific royalty rates and not simply all leases in a given geographic area.

Co-Chair Foster WITHDREW the OBJECTION. There being NO further OBJECTION, conceptual Amendment 1 to Amendment 13 was ADOPTED.

Co-Chair Foster explained that Amendment 13 as amended was before the committee.

Representative Stapp explained that the amendment would provide a royalty relief to consumers receiving liquefied natural gas from the North Slope. Currently, North Slope oil was set to be the state's main supply. He presumed that Southcentral would also soon need to truck gas from the North Slope as well. Royalty relief would directly benefit the consumers utilizing the gas. He had heard a significant amount of testimony that Alaskans should not need to pay royalties on domestic use of gas. If the amendment was adopted, Alaskans in the Interior would experience a substantial reduction in the cost of gas for domestic use. There were a few provisions in the bill with a 10-year sunset clause. In October of 2024, a Harvest Alaska oil liquefaction facility would be completed that would facilitate gas being trucked from the North Slope to the Interior for domestic use. He suggested that the state should keep all options open on the table as the potential gas shortage approached. However, he did not think there would ever be a gas shortage on the North Slope and utilizing the gas on the slope for domestic use would benefit all Alaskans.

Mr. Valdez commented that the amendment would not affect the underlying intent of the bill, which was to provide gas availability relief to the Cook Inlet. The sponsor supported the amendment.

Commissioner Boyle noted that the department supported any efforts to reduce energy costs for all Alaskans and was

neutral on the amendment. He hoped to see the same reciprocity when it came to gas affordability in Anchorage.

[8:54:08 PM](#)

Co-Chair Edgmon asked Representative Stapp if Amendment 13 was tied into his earlier amendment [Amendment 1] involving Middle Earth.

Representative Stapp responded in the negative and explained that Amendment 13 would cover a separate geographic region. He relayed that Amendment 1 related to Middle Earth and Amendment 13 related to the North Slope.

Co-Chair Edgmon thought the core of the bill would change from Cook Inlet relief to interior relief if Amendment 13 were to pass. He asked if his understanding was correct.

Representative Stapp responded that his philosophy was that all Railbelt consumers should receive energy relief if there was a dramatic reduction in the state share royalty. He did not understand the reasoning behind the gas bought by Fairbanks being sold at a 12.5 percent royalty rate while other areas of the state could buy gas at a 3 percent rate.

Co-Chair Edgmon understood that the bill intended to incentivize companies to extract oil in marginal fields in marginal conditions at a market-driven price. He asked if he was correct.

Commissioner Boyle responded that it was a key element of the bill to help incentivize and improve the economics for natural gas and oil production, although the amendments had stricken the oil production portion from the bill. He noted that the hope was that acquiring more gas would help keep the prices of Cook Inlet-produced natural gas as low as possible to provide as much relief as possible to the end users.

Co-Chair Edgmon remarked that the amendment would offer to consumers in the Interior direct relief, whereas the bill without the amendment would not provide relief to Cook Inlet itself, but only to the consumers at market rate, which could be more expensive than the gas in the Interior receiving the relief.

Mr. Crowther responded that he did not have the delivered cost of gas to the consumer on the top of his head. The royalty assessed on the gas would be material from a consumer's perspective. The cost of gas trucked down from the North Slope would be significantly higher than the current delivered cost rate in Southcentral.

Co-Chair Edgmon commented that he was not sure if he would ultimately object to the bill because he did not understand it fully. He understood Representative Stapp's intent but had not made up his mind on it.

8:58:16 PM

Representative Stapp appreciated the comments. During many committee meetings, he constantly brought up the fact that Cook Inlet gas had price controls and had been heavily subsidized, which affected the market price. The North Slope gas that the state was going to purchase in the Interior had no price controls and there was a price at the point of sale and an additional cost to deliver the gas. He understood the need to offer subsidies and reduce royalties for Southcentral to ensure that Alaskans could afford gas. He thought it would be unfair to continue subsidies and disallow market economics to dictate the actual price of gas in Cook Inlet without considering other people in the state who also used gas and had to incorporate all of the market demand into the process.

Co-Chair Edgmon remarked that he was feeling a little left out as a rural legislator.

Representative Ortiz echoed Co-Chair Edgmon's comments about feeling left out. He asked what the implications would be of lowering the royalty share. He asked for an explanation of what the amendment would do.

Representative Stapp responded that it would take the royalty that public utilities paid for the purchase of gas and reduce it to zero. He would entertain an amendment to change it to 3 percent for the sake of parity.

Representative Ortiz asked what the fiscal implications would be for the state.

Representative Stapp responded that there was currently no gas being used and there would be no change until the end

of June when the bill would become effective. There was no current fiscal impact and there would be no change in the royalty rate. The Harvest facility would not come online until the end of the year. The amount of gas in thousand cubic feet (MCF) was marginal, but he would defer to DNR for the exact figures. The amount of gas would be fractional compared to overall demand.

Mr. Crowther responded that the current contracts called for approximately two billion cubic feet (BCF) per year. The Cook Inlet demand was generally around 70 BCF per year. The gas sales price was approximately between \$2 and \$3. The current royalty on a single MCF of gas would be around 12.5 percent of the price.

Co-Chair Edgmon asked if the amendment would benefit every utility if HB 307 passed and the wheeling rates were eliminated.

Mr. Crowther asked for him to rephrase the question.

Co-Chair Edgmon explained that he understood that the utilities charged consumers in two different ways: transmission rates and wheeling rates. He understood that HB 307 would remove the wheeling rates. If the amendment were to pass and HB 307 were to pass, the entire Railbelt would receive a subsidy for electricity.

[9:03:06 PM](#)

Mr. Crowther responded that he was not certain that he had a full understanding of electricity rates in the markets. He suggested that Representative Stapp had a better understanding.

Representative Stapp explained that the amendment would apply specifically to LNG. If the utilities were to truck the LNG and utilize it for power generation, the rates on the Railbelt would be lowered, which would increase the viability of the Power Cost Equalization (PCE) program. He agreed that if the Railbelt transmission line was unified and liquified gas was utilized in power generation, Co-Chair Edgmon would be correct.

Co-Chair Edgmon remarked that it would make sense for the utilities in Fairbanks to utilize liquefied natural gas

because the rates would be lower, which in turn would allow cheaper electrons to flow through the entire system.

[9:04:48 PM](#)

Representative Josephson understood that the homes in the Fairbanks North Star Borough (FNSB) that used natural gas currently acquired the gas from Cook Inlet. He asked for clarification that the process would be altered in part in about six months.

Representative Stapp clarified that the process would change entirely.

Representative Josephson MOVED to ADOPT conceptual Amendment 2 to Amendment 13. He explained that the amendment would change "zero" to "three" on line 7 of Amendment 13.

There being NO OBJECTION, conceptual Amendment 2 to Amendment 13 was ADOPTED.

[9:05:38 PM](#)

AT EASE

[9:06:18 PM](#)

RECONVENED

Co-Chair Foster clarified that conceptual Amendment 2 to Amendment 13 had just been adopted.

Representative Josephson asked the department if Amendment 13 as amended was written tightly enough and would not cause unintentional negative impacts. He wondered if the profits would be negatively impacted if the amendment were to pass. He saw profit generation and increased domestic gas production as the main goals of the bill.

Mr. Crowther responded that the department believed the amendment addressed the concerns effectively. He highlighted specific provisions that would help the bill achieve its intended purpose. One of the provisions focused on selling gas to publicly owned utilities or utilities and was regulated under AS 42.05, with a requirement for a discount on the rate. The department believed that the provision would limit any impact on exports. Additionally, a clause addressed savings from the impact on commercial

quantities of LNG shipped out of the state. The department felt that the provisions sufficiently constrained the amendment, preventing potential negative consequences.

Representative Josephson WITHDREW the OBJECTION.

There being NO further OBJECTION, Amendment 13 was ADOPTED as amended.

[9:08:36 PM](#)

Co-Chair Johnson MOVED to RESCIND action on Amendment 6.

There being NO OBJECTION, the action was RESCINDED.

Co-Chair Foster clarified that rescinding action would mean that the amendment would be treated as if it had never been voted upon. There were two motions before the committee: one to rescind action and another to adopt Amendment 6 as originally written.

Representative Josephson MOVED to ADOPT Amendment 6.

[9:09:07 PM](#)

Co-Chair Foster asked Representative Josephson to summarize the amendment again.

Representative Josephson explained that the amendment would shift the focus of the bill from oil and gas to gas alone.

Representative Stapp OBJECTED.

Representative Stapp noted that the amendment had been adopted earlier and asked whether the department thought that the gas in the deposit might not be developed if the amendment were re-adopted as written.

Commissioner Boyle responded that passing the amendment and removing the royalty reduction for new oil would create a fatal flaw in the bill. While he understood Representative Josephson's position, he explained that the economics of oil and gas were closely intertwined. He emphasized that if gas fields were influenced by underlying oil, improving the economics of gas alone would not be sufficient to move the projects forward. He believed that separating oil from gas

production would not adequately incentivize more gas production.

Representative Josephson asked if BlueCrest was currently producing oil.

Commissioner Boyle responded that the company was currently producing some oil.

Representative Josephson relayed that he offered Amendment 15 because he talked to the owner of BlueCrest over the last few days and the owner's request was for \$400 million for the development of gas. The request was not seeking royalty reduction on oil.

Representative Galvin asked if rescinding action on Amendment 6 meant the committee would need to return to all of the other amendments that were adopted with the understanding that the bill would focus strictly on gas. She thought the process felt messy and she was concerned that it felt as though offline conversations were involved. She was not happy with the committee's process, and it did not feel right.

Co-Chair Foster remarked that he had been present for many oil tax debates and he agreed that it was a long process. The one difference that had been raised was how quickly the shortage problem was progressing. He agreed that the process was messy in that the committee was discussing a wide array of topics in the current meeting. He offered reassurance that all adopted amendments would be rolled into a committee substitute (CS). He suggested that the question about how rescinding action on Amendment 6 would affect other amendments was something the committee could discuss when a clean CS was before the committee. The current meeting was not the final step in the process.

[9:16:00 PM](#)

Representative Galvin asked for the department to give her certainty that the bill needed to include oil as well as gas to successfully drive production.

Commissioner Boyle responded that he had a high level of confidence that by including royalty relief on the oil, the projects would become more economic. Based on DNR's modeling, analysis, and understanding of the geology and of

the behavior and investment decisions typically made by companies, he was confident that the royalty rate on oil needed to be reduced as well as the gas royalty rate to incentivize new production.

Representative Galvin wanted to add more caveats. She understood that the companies needed to be incentivized, but she was not sure the bill was the right way to go about it. She thought that in the past, the committee had heard from more sources than only the department. She appreciated the work of the department, but she wanted to hear more voices. The amendment would be offering substantial relief to companies and she wanted the significance to be understood.

Commissioner Boyle appreciated the fact that everyone was endeavoring to make as educated and responsible choices as possible. He thought it was important to highlight that the bill was focused on incentivizing new production and not on current production. The state treasury would not be immediately impacted. She understood that the true debate was whether it would be better to get "3 percent of something than 100 percent of nothing." We're not talking about an immediate impact on the state treasury. The current modeling suggested that the state was on a downward trajectory. He thought that incentivizing new oil and gas would not directly make the state lose money but instead, Alaskans would get more value from the state's resources than if the resource were to just sit stagnant under the ground not being produced, refined, and providing heat and light for homes.

Representative Galvin commented that the math was not difficult to understand. She thought that behavioral changes were necessary and the state needed to decide how to best bring about positive behavioral changes. She thought that the legislature and the public needed to understand that the proposed royalty rate had changed drastically even over the last few hours. The rate made a big difference in changing the behavior of oil and gas companies, and she understood that the bill could bring about the change, however, she needed to know that the legislature was making good decisions for the state and not simply playing a partisan game.

[9:22:44 PM](#)

Representative Josephson stated that the state currently received \$85,000 a day in royalty oil from Cook Inlet, totaling \$31 million annually. He clarified that the figures referred to old oil and gas, while the bill focused on new oil production. He mentioned hearing that the state was currently producing only 8,000 barrels per day. He did not believe the math supported reducing oil royalties and offered Amendment 15 to support new oil production and assist BlueCrest in building a new platform. To his knowledge, BlueCrest had never requested oil royalty relief. He would support Amendment 6 as written.

Co-Chair Edgmon expressed that he wanted to speak in support of Representative Galvin's earlier comments. He thought that Amendment 15 amendment changed the complexion of the bill. He asked how all of the pieces of the bill and amendments were woven together to create a full picture of the bill. He asked if he was perhaps reading too much into the conversation.

Commissioner Boyle responded that he thought everyone was unified behind the goal of making more energy more available and more affordable for Alaskans. He explained that the bill initially focused on Southcentral, as it was the region closest to facing a gas shortage crisis. He believed including North Slope oil in the bill was a fair addition, acknowledging that offering simple relief to Alaskans was beneficial, even if the exact extent of the relief could not be easily quantified. He noted that incentivizing new production in Cook Inlet could reduce the impact of high energy prices, with energy from local sources being less expensive than imported LNG. He emphasized that while reducing energy costs for the Railbelt helped those relying on the PCE program, Alaskans outside the Railbelt also had significant needs. He warned that if the state lost control over its gas supplies and had to rely on expensive alternatives, there would be ripple effects throughout the state. He stressed the importance of viewing the situation in a holistic manner.

[9:28:48 PM](#)

Co-Chair Edgmon remarked that the bill had changed significantly and its scope had expanded. He suggested that the committee should have had a PowerPoint presentation to refer to graphics and better understand the bill as a whole. He expressed concern about discussing such a complex

subject late in the evening during the final weeks of session. He clarified that he was not trying to cast blame but felt that the process was complicated, and he was attempting to better understand the bill and its implications for the state.

Commissioner Boyle responded that he was not fully aware of all the policy changes related to Middle Earth. He explained that the goal was to make the region more attractive for increased activity. While he would fully support oil and gas production in Middle Earth, he was not aware of any companies actively exploring energy resources in the area. He acknowledged that the inclusion of Middle Earth was a good idea in theory, but he believed similar efforts were already addressed in another bill related to geothermal energy. He emphasized that the focus of HB 223 should remain on Cook Inlet.

Co-Chair Foster noted that Co-Chair Johnson moved to rescind action on Amendment 6, which had passed. The original Amendment 6 as written was back before the committee.

Representative Stapp MAINTAINED the OBJECTION.

[9:31:50 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Ortiz, Josephson, Hannan, Edgmon, Foster
OPPOSED: Galvin, Cronk, Coulombe, Stapp, Tomaszewski, Johnson

The MOTION to adopt Amendment 6 FAILED (5/6).

[9:32:59 PM](#)

Representative Coulombe WITHDREW Amendment 14 (copy on file).

[9:33:05 PM](#)

Representative Josephson MOVED to ADOPT Amendment 15, 33-LS0886\D.18 (Nauman, 4/26/24) (copy on file). [Due to the length of the amendment, it was not included in the document. Please see the copy on file for details.]

Representative Cronk OBJECTED for discussion.

Representative Josephson explained the amendment. He had noticed several days ago that due to the ticking clock, the committee would not be able to discuss all five or six oil bills that were currently proposed. The amendment would incorporate HB 388 [relating to Cook Inlet reserve-based lending] which would authorize AIDEA to assist in the financing of projects in Cook Inlet to improve the odds of gas production. He directed attention to page 3, lines 29 to 31 of the amendment, which stated that the authority could use money in the fund to make one or more reserve-based loans to fund oil and gas development. The amendment would offer another tool and was a pro-development amendment.

Mr. Valdez responded that the amendment was written slightly differently than HB 388. He understood that the amendment would expose AIDEA's entire balance sheet to risk, unlike HB 388. There were a few significant differences that set that amendment apart from HB 388. He thought it would also compromise the financial integrity of the authority's credit rating due to management and general fund appropriations.

[9:36:22 PM](#)

Representative Cronk asked if anyone from AIDEA was available to speak on the amendment.

BRANDON BREFSCZYNSKI, DEPUTY DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (via teleconference), explained that when HB 388 moved out of the House Resources Committee, an amendment was added to grant AIDEA the ability to establish a subsidiary across all of its funds. The primary fund under AS 44.88.172 was the revolving fund. Additional funds included the Sustainable Energy Transition and Supply (SETS) and the Arctic Infrastructure Development Fund (AIDF), both of which were created after AIDEA was given the authority to establish subsidiaries. He clarified that the HB 388 amendment allowed AIDEA the flexibility to create subsidiaries across all funds, which was useful. He expressed appreciation to Representative Josephson for bringing the amendment forward and emphasized that AIDEA supported adjusting the language to enable subsidiaries across all funds.

Mr. Brefsczynski continued, noting that the second point concerned general fund appropriations and AIDEA's credit rating, particularly in relation to the reserve-based fund. He explained that if the legislature made a general fund appropriation to the reserve-based lending fund, restrictive language would prevent AIDEA from moving money within that fund. The restriction could potentially harm AIDEA's credit rating. He cited 2019 as the most recent instance where AIDEA's credit rating was negatively impacted due to funds not part of AIDEA's dividend being spent or moved. The event led to a two-step credit downgrade and a negative credit outlook. He clarified that if funds were moved around without being used, it could have similar effects. However, AIDEA would not object to general fund appropriations like those provided in 2013 through HB 105 for the interior trucking and gas project. He indicated that he wasn't currently concerned about transferring funds, as it would require an appropriation in a separate budget bill.

[9:40:53 PM](#)

Representative Coulombe inquired what Representative Josephson hoped to achieve through the Cook Inlet Oil and Gas Development Project Report.

Representative Josephson responded that the amendment provided the answer. He explained that AIDEA would be required to submit an annual report to the legislature, including a review and testimony on its investments in Cook Inlet.

Representative Hannan asked Representative Josephson to confirm whether he intended to incorporate HB 388 into the bill.

Representative Josephson responded in the affirmative. He recalled that the state's top attorney on oil and gas matters had made changes solely due to concerns about the single-subject rule.

Representative Hannan asked what the legislature needed to address in the amendment to align it with HB 388, particularly regarding Cook Inlet.

Mr. Brefsczynski Mr. Brefsczynski explained that there were two separate issues. The first issue was the reserve-based

lending fund, which was the initial focus of HB 388 and would be addressed by the amendment. He clarified that HB 388 was initially designed to grant AIDEA the ability to establish subsidiaries across all its funds. However, the amendment would only apply to the revolving fund and the economic development account. He proposed that the ability to establish subsidiaries be expanded.

Representative Hannan asked for clarification on which page and line Mr. Brefsczynski was referring to.

Mr. Brefsczynski responded that he was referring to page 2, line 24 of the amendment. He suggested deleting content under AS 44.88.172 and adding the phrase "by the authority." The change would align the amendment with the objectives of HB 388.

Representative Josephson acknowledged that AIDEA had expressed interest in receiving an infusion of general fund dollars. However, he believed Mr. Brefsczynski was requesting additional power for AIDEA, while Representative Josephson's goal was for AIDEA to focus on developing the Cosmopolitan field or other related fields, rather than expanding its powers.

Co-Chair Edgmon suggested that the maker of the motion might not fully understand the amendment.

Co-Chair Foster understood that Representative Josephson would like to keep the amendment as it was.

Representative Josephson responded in the affirmative.

Representative Hannan clarified that AIDEA was indicating the amendment was significantly different from HB 388. After the additional discussion, she now understood the distinction. The amendment was specifically tailored to apply to the reserve-based lending for Cook Inlet.

Mr. Brefsczynski responded that for the sake of time, he would be happy to have the conversation offline. He clarified that the goal was not to expand AIDEA's power but to protect its assets while making investments. He noted that the approach was similar to how other companies might establish LLCs or special purpose vehicles for investments.

[9:48:16 PM](#)

AT EASE

[9:49:17 PM](#)

RECONVENED

Co-Chair Foster noted that Emily Nauman from Legislative Legal Services (LLS) was online and could provide additional information.

[9:49:47 PM](#)

EMILY NAUMAN, DIRECTOR, LEGISLATIVE LEGAL SERVICES (via teleconference), reiterated Representative Josephson's point about expanding AIDEA's power to allow it to create subsidiaries across various funds. If the amendment were expanded as Mr. Brefsczynski suggested, it would likely violate the single-subject rule by addressing more than one subject.

Representative Hannan asked for confirmation that the amendment as drafted would not bring any single subject concerns of violation.

Ms. Nauman responded in the affirmative.

[9:51:40 PM](#)

AT EASE

[9:52:19 PM](#)

RECONVENED

Co-Chair Edgmon shared his understanding that Amendment 6, which sought to eliminate oil from the bill, initially passed with a vote of 8/3 but later failed following a dissent motion, which resulted in a vote of 5/6`. He understood that Amendment 15 related to state loans for oil and gas development projects in Cook Inlet, and that the bill had now evolved into a comprehensive oil and gas bill.

Representative Josephson responded in the affirmative. He clarified that the amendment was not primarily focused on royalty relief but was specifically about granting AIDEA the power to use reserve-based lending in Cook Inlet. He expressed particular interest in the proposal and acknowledged that some royalty relief would likely be included. He also noted that he did not expect HB 388 to be taken up during the current session and offered the

amendment as an alternative for the legislature to consider.

Co-Chair Edgmon expressed surprise at the process, noting that he did not fully understand the concept. While he agreed that it was unlikely HB 388 would be addressed, he felt that combining it into HB 223 would effectively create an omnibus bill. He was uncomfortable with his level of understanding of the bill's contents. He questioned why the committee was not considering combining the next bill on the agenda into HB 223 as well, to accomplish everything in a single evening. He was confused and surprised at the manner in which the bills were being combined.

Representative Cronk MAINTAINED the OBJECTION.

[9:56:01 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Stapp, Cronk, Coulombe, Galvin, Josephson, Tomaszewski

OPPOSED: Hannan, Ortiz, Edgmon, Foster, Johnson

The MOTION PASSED (6/5). There being NO further OBJECTION, Amendment 15 was ADOPTED.

[9:57:14 PM](#)

Co-Chair Foster explained that the intent was to incorporate all changes made to the bill into a CS.

Representative Rauscher expressed appreciation for the committee's time spent on the bill and looked forward to reviewing the CS.

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

[9:59:20 PM](#)

#hb119

HOUSE BILL NO. 119

"An Act relating to marijuana taxes; and providing for an effective date."

10:00:12 PM

REPRESENTATIVE JESSE SUMNER, SPONSOR, explained that the bill was essentially a change in the marijuana tax structure.

Co-Chair Foster noted that there were 13 fiscal notes.

BRANDON SPANOS, ACTING TAX DIRECTOR, DEPARTMENT OF REVENUE, TAX DIVISION, ANCHORAGE (via teleconference), reviewed the fiscal note from the Department of Revenue (DOR) with control code wrLQD. The department estimated that the change in the rate from \$50 per ounce to \$12.50 per ounce would reduce current revenue by \$18.3 million in the first full fiscal year after implementation. The department projected that moving from the \$12.50 per ounce wholesale transfer rate to a sales tax of 3 percent in FY 29 would result in a further decrease of \$27.6 million in FY 29. The estimates assumed no inflation for fiscal note purposes.

Mr. Spanos explained that the bill also changed the allocation of tax revenue. Currently, the revenue was split between three funds: the Recidivism Reduction Fund (RRF), which held 50 percent of the revenue, and the Marijuana Education and Treatment Fund (METF) and the Unrestricted General Fund (UGF), which each received 25 percent. The bill changed the allocation to 100 percent of the revenue being deposited into METF, and the revenue could be appropriated from that fund for the following three different purposes, with no more than 33 percent allocated to each: the Department of Health (DOH) for a comprehensive marijuana use education and treatment program, the Department of Commerce, Community, and Economic Development (DCCED) to support administrative tasks related to the cultivation, manufacturing, and sales of marijuana and marijuana products, and to the general fund.

Mr. Spanos explained that on page one of the fiscal note, a table had been included to show all three funds and the department's projections. The bill initially required only minor changes to be implemented, as the change from \$50 per ounce to \$12.50 per ounce was straightforward with no implementation cost. However, the change to a 3 percent sales tax in FY 29 would involve more significant costs. The change would introduce a new sales tax system, which was not currently in place in the state, and would require the development of a new module in the tax revenue

management system, as the old taxes would be eliminated. However, the department did not need to hire additional staff, as current staff could absorb the work, though enforcement functions would require travel, which would be accounted for. He had noted in a previous letter to the committee that the current effective date was tight. The department routinely stated that whenever there was a large change to the tax revenue management system, it would need 12 to 18 months to implement the change. The estimated implementation cost had originally been \$1 million, but it had been updated to \$2 million because of the short timeframe. If the effective date was pushed back by at least 12 months, the cost would return to \$1 million.

[10:04:46 PM](#)

Mr. Spanos was available for questions.

Co-Chair Foster asked if Mr. Spanos was reading from the fiscal note with OMB component number 2476.

Mr. Spanos responded that he realized he was not reading from the correct fiscal note.

Representative Hannan noted that the date on her fiscal note was dated January 22, 2024. She asked if she had an old version of the fiscal note or if it was the most current version.

Co-Chair Foster stated the date on the correct and most current fiscal note was April 11, 2024 with OMB component number 2476 and control code wrLQD. He asked if Representative Hannan had the same version.

Representative Hannan responded that she did not.

Co-Chair Foster asked which version Mr. Spanos had been referencing.

Mr. Spanos responded that he was looking at a version in Excel which did not have a component number.

[10:06:16 PM](#)

AT EASE

[10:07:08 PM](#)

RECONVENED

Co-Chair Foster noted the OMB component number 2476 was the correct version of the note.

Mr. Spanos relayed that he had the correct version of the note.

Co-Chair Foster asked for confirmation that Mr. Spanos had the fiscal note with OMB component number 2476 if it was correct.

Mr. Spanos replied affirmatively.

[10:07:56 PM](#)

JOSEPHINE STERN, ASSISTANT COMMISSIONER, DEPARTMENT OF HEALTH (via teleconference), reviewed the fiscal note by DOH with OMB component 3099 and control code uljnX.

Co-Chair Foster asked for a repeat of the component number.

Ms. Stern replied 3099.

Co-Chair Foster asked for the control code. He noted that the version of the fiscal he had was dated January 24, 2024. He asked what the date was on Ms. Stern's version.

Ms. Stern replied April 15, 2024.

[10:09:30 PM](#)

AT EASE

[10:12:01 PM](#)

RECONVENED

Co-Chair Foster noted that the committee was considering OMB component 3099.

Ms. Stern relayed that the fiscal note was based off of DOR's projections for the Behavioral Health Treatment and Recovery Grant (BHTRG) and the allocation that DOH received every year. Based off of DOR's projections, BHTRG was estimated to collect a total of \$3,791,800 in revenue in FY 2025, which was split between the RRF, which was estimated to be a reduction of around \$2,021,500, and the METF, which was reduced by around \$1,770,300 dollars. In the out years, the amounts were estimated to decrease due to inflation,

market growth, and population growth. The amounts in the out year fiscal notes had been adjusted accordingly based off of DOR's fiscal notes. The reductions would affect the grants that the component issued out on an annual basis.

Co-Chair Foster asked if there were any questions on the fiscal note. After seeing none, he noted the committee could return to any fiscal notes at any time.

Ms. Stern reviewed the next fiscal impact note prepared by DOH with OMB component 2665 and control code MQbaD. The note was based on the DOR fiscal notes and the annual allocation that was distributed to DOH under the Behavioral Health Administration (BHA). Based on DNR's fiscal note and the allocation that the component received on an annual basis, the estimated production in FY 25 was projected to be a decrement of \$154,900, of which \$87,800 was from RRF and \$67,100 was from METF. The amount was set to decrease over the subsequent years due to inflation, market growth, and the population growth. The funds in the fiscal note were used related to contracts that promoted education and treatment related to marijuana.

[10:16:13 PM](#)

Representative Galvin understood that the fiscal note was addressing funds that were divided between DOH and prevention programs. She asked if the prevention programs would receive less funding than usual, and if so, how long would the funds be reduced.

Ms. Stern responded in the affirmative. The funds were used to issue grants for after school youth services and to communicate messages to help prevent youth marijuana use and educate the public about marijuana. The activities were purely based off of the revenue that was collected through marijuana taxes. If there was a decrease in the revenue collected, the grant program would either become smaller or the department would need to request additional funds or supplement with existing resources.

Representative Galvin explained that her understanding was that the revenue source was being changed to be sourced from the sales tax at the consumer level. She thought that municipalities such as Anchorage had similar prevention programs that were funded through marijuana sales. She

asked if there might be supplanted funds going through the programs.

CLARK BICKFORD, STAFF, REPRESENTATIVE JESSE SUMNER, deferred the question a representative from the governor's task force.

BRANDON EMMETT, CHAIRMAN, GOVERNOR'S TAX TASK FORCE ON RECREATIONAL MARIJUANA AND HEMP, FAIRBANKS (via teleconference), asked for Representative Galvin to repeat the question.

Representative Galvin complied.

Mr. Emmett responded that municipalities currently collected monies that went into the general fund and were appropriated at the purview of the municipality. In Fairbanks, the funds were used for emergency medical services, the road system, and schools. The decrement in the wholesale tax would be offset by the implementation of a retail tax, which had been illustrated in some of the projections that were done by House Majority staff member Cody Rice. The projections showed that because of the manner in which taxpayers had been paying the taxes, the decrease with the status quo in the wholesale market would be in excess of what the change would be if it became a retail tax. In the short term, the taxes collected by a decrease at wholesale would be a reduction, but in the long term, it would be an increase in total revenue to the state according to all projections.

[10:22:29 PM](#)

Ms. Stern reviewed the fiscal impact note prepared by DOH for the Division of Public Health relating to OMB component 2818 and with the control code ilSLR.

Co-Chair Foster asked for a repeat of the component number.

Ms. Stern complied. The fiscal note was based off of the DOR fiscal note which projected a decrease in revenue. The projected decrease for DOH under Chronic Disease Prevention and Health Promotion was estimated to be a total decrease in FY 25 of \$1,082,700 from METF. The number was estimated to decrease in subsequent fiscal years, due to inflation, market growth, and population growth. The funds were also

used for grants for outreach and education, as well as training for education programs related to marijuana.

[10:24:46 PM](#)

Co-Chair Foster moved to the Department of Corrections' (DOC) fiscal notes.

TERI WEST, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF CORRECTIONS (via teleconference), relayed that DOC had seven fiscal notes. She started with the fiscal impact note with OMB component number 2244 and with the control code vUQRd. She clarified that the fiscal note was dated April 23, 2024. She asked if members had the same fiscal note on hand.

Co-Chair Foster confirmed that he had the correct fiscal note.

BRODIE ANDERSON, STAFF, REPRESENTATIVE NEAL FOSTER, requested that the appropriation name be stated.

Co-Chair Foster replied that it was the community residential centers. He asked Ms. West to detail the fiscal notes.

Ms. West explained that the fiscal note had been updated to incorporate the changes from the CS and updated to align with the Spring 2024 Revenue Forecast from DOR. The fiscal note reflected a fund source change from RRF to UGF in FY 25 totaling \$351,000. The reduction in the revenues were seen in the out-year cost estimates. The funds were used to support successful re-entry efforts within the community residential center.

[10:26:57 PM](#)

Ms. West moved to DOC's next fiscal impact note with OMB component number 2952 for Health and Rehabilitation Services with the control code wGflU. The fiscal note was incorporating changes from the CS to align with the DOR Spring 2024 Revenue Forecast. There was a fund source change from RRF to UGF in FY 25 in the amount of \$1,232,800 with the amounts reducing through the out-year. The funds were used to support medical services within the physical health care component.

Co-Chair Foster invited Ms. West to move to the next fiscal note.

Ms. West moved to DOC's next fiscal impact note with OMB component 2971 for education programs with the control code JepWS. The fiscal note again incorporated changes from the CS and updates to align with the DOR Spring 2024 Revenue Forecast. There was another fund source change from RRF to the general fund in the amount of \$290,300 in FY 25 with reductions in the out-year cost estimate. The funds supported the educational programming within the department.

Ms. West advanced to DOC's next fiscal impact note with OMB component 2972 for vocational education programs with the control code WFsFW. The fiscal note again incorporated changes from the CS to align with the DOR Spring 2024 Revenue Forecast. There was a fund source change from RRF to general funds in the amount of \$212,700. The funds were utilized for the vocational programming efforts.

[10:31:10 PM](#)

Ms. West addressed the next DOC fiscal impact note with OMB component 2973 with control code OkmVr. The note incorporated the changes from the CS and was updated to reflect the DOR forecast. There was another fund source change from RRF to general funds in the amount of \$61,400. The funds were used to support domestic violence programs.

Ms. West spoke to DOC's next fiscal note with OMB component number 2975 for sex offender management programs and control code UgGFA. The note incorporated the changes in the CS and the DOR forecast. There was another fund source change from RRF to general funds in the amount of \$702,000 with decreased amounts in the out years. The funds were again used to support the sex offender treatment programs within the department.

Ms. West reviewed the next DOC fiscal impact note with OMB component 3080 for recidivism reduction grants with the control code hYouo. The note incorporated changes from the CS and was updated to align with the DOR forecast. There was another fund source change from RRF to general funds in the amount of \$776,900 with decreasing amounts in the out years. The funds were utilized for reentry efforts. She relayed that she had no more fiscal notes.

Representative Galvin asked about the total for all of the fiscal notes.

Representative Coulombe pointed out that the second page of all of the fiscal notes showed the total for all of the notes from DOC.

Co-Chair Foster recognized the legislative liaison for DOC was available for questions.

[10:36:11 PM](#)

LESLIE ISAACS, LEGISLATIVE LIAISON, DEPARTMENT OF ADMINISTRATION (via teleconference), reviewed the zero fiscal note from the Department of Administration (DOA) with OMB component number 59 and the control code LUNwZ. The Division of Finance managed the funds within the state's accounting system and did not anticipate that the bill, as amended, would have a meaningful impact on the workload.

PAM HALLORAN, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF PUBLIC SAFETY (via teleconference), reviewed the fiscal impact note from the Department of Public Safety (DPS) with OMB component number 521 and control code yBSRc. The allocation was for the Council on Domestic Violence and Sexual Assault (CDVSA). The note incorporated the changes from the CS and the DOR forecast. There was another fund source change from RRF to general funds in the amount of \$702,000, with reduced amounts in the out years. The funds were used to support the sex offender treatment programs within the department, and the RRF would be reduced slightly by \$360,000, with a further decrease in the out years. The department used RRF for grants and programs to support domestic violence prevention efforts by CDVSA.

Mr. Bickford requested that Mr. Rice be brought up for the amendment portion.

[10:40:08 PM](#)

AT EASE

[10:41:13 PM](#)

RECONVENED

Co-Chair Foster related that the committee would now hear the four amendments on the bill.

[10:42:05 PM](#)

AT EASE

[10:42:33 PM](#)

RECONVENED

Representative Josephson MOVED to ADOPT Amendment 1, 33-LS0636\U.4 (C.Radford, 4/30/24) (copy on file). [Due to the length of the amendment, it was not included in the document. Please see the copy on file for details.]

Representative Stapp OBJECTED for discussion.

Representative Josephson explained the amendment. The tax had been based on the cultivator, with three types of taxes: high grade, medium grade, and low grade. The bill intended to shift to a pure retail tax, which was a process used by some other states. If the bill passed, Alaska would become the state with the lowest retail tax. The amendment would reduce the \$12.50 per ounce wholesale transfer rate to \$10. He believed that the cultivator should have some "skin in the game." The amendment would eliminate the complaint regarding the reluctance to be fully transparent about the product mix because the product mix would no longer be relevant. He thought it would benefit the cultivator significantly, as the tax would drop dramatically. The effective tax rate would decrease from \$800 per pound to \$160 per pound.

Representative Josephson shared that according to a Green Market Report, the average price of cannabis in Alaska was \$2,400 per pound, which was \$300 per pound higher than in the next closest state. The \$800 per pound excise tax at wholesale had been considered a primary factor contributing to the high cost of cannabis in the state. The proposed change would reduce the price of cannabis by \$800, bringing it down to about \$1,600 per pound. The process would begin with a cheaper product, making cannabis more affordable. While Alaska would still have one of the highest costs per pound, it would no longer have the highest. He clarified that the amendment was related to the retail rate because he was also proposing a retail tax.

[10:46:26 PM](#)

Co-Chair Foster asked for a comment from the sponsor.

REPRESENTATIVE JESSE SUMNER, SPONSOR, did not support the amendment. He believed that it would result in a substantial tax increase for the entire industry. He considered the amendment inadvisable for many reasons, and stated that if the amendment passed, he would withdraw the bill the following day. He suggested that Mr. Rice could explain.

CODY RICE, STAFF, HOUSE MAJORITY, explained that the amendment would cause a roughly 42 percent tax increase. He suggested that there was a possibility that it would result in a reduction in tax revenue and drive as much as 200,000 to 300,000 ounces per year to the black market based on the price elasticity demand effects of the tax increase.

Representative Sumner shared that within the last day, the federal government had announced that it would be rescheduling marijuana from a Schedule 1 substance, which was likely a first step along the road to legalization. A cultivator tax would destroy all Alaskan industry because it would not be able to compete with an untaxed out-of-state market. The state would need to switch to a retail tax if there was federal legislation, and he thought the state should get ahead of the eventuality of legislation.

[10:48:43 PM](#)

Representative Josephson thought Representative Sumner's comment that he would pull the bill was a little manipulative, especially considering the late hour. The industry had indicated that it needed change, and the bill was described as a tax increase. He was not sure what part of the bill proposed a tax increase because it appeared to him to be a massive tax cut. He understood that DOR had reported that the state currently received about \$28 million per year in tax. He wondered what the state would receive in FY 25 if an 8 percent retail tax were implemented.

[10:50:41 PM](#)

AT EASE

[10:51:39 PM](#)

RECONVENED

Representative Josephson clarified that he had asked DOR to do an analysis on his amendments. The department reported that the state would receive \$25.6 million under his collective amendments and as little as \$23 million under the 8 percent sales tax. He understood that DOR reported that combining a 10 percent cultivator's tax with an 8 percent retail tax would result in a \$5 million tax cut. He was mainly concerned because the committee had recently been presented with a "nightmare" of fiscal notes that would gut all manner of programs totaling \$20.5 million. He did not know how to replace all of the income for all of the programs, but he was trying to alleviate the issue by implementing the reduction to the cultivator's tax. The committee could reject all of the amendments or choose, for example, an 8 percent tax or 10 percent tax. He understood that the House Labor and Commerce Committee examined the idea of implementing a 10 percent tax, which might seem high, but as a comparison, California and Colorado had a 15 percent excise tax and Maine and Michigan had a 10 percent tax. He reiterated that if a 6 percent tax was implemented in Alaska, it would be the lowest tax of its kind in the country. He wanted to share what he had learned on the topic even though the bill had been introduced late in the session.

[10:54:42 PM](#)

Co-Chair Edgmon remarked that it was hard to compare Alaska to other states because of the growing season and expensive nature of Alaska. He thought the tax provision in the bill seemed fair and he even saw an argument for reducing the 6 percent rate further. He thought the change to the cultivator tax would restructure the entire bill.

Representative Josephson commented that there were other states that had implemented a mixed system. For example, Maine had a tax of \$335 per pound on flower, \$94 per pound on trim, \$1.50 per immature plant or seedling, and \$0.03 per seed. There were different ways to structure the system. His office's research indicated that the comments about the black market were overstated and speculative.

Co-Chair Edgmon thought the amendment structurally changed the bill.

Mr. Rice agreed with Co-Chair Edgmon. The tax in Alaska was more expensive than the actual wholesale cost of a pound of cannabis in several other states. For example, Maine had a small and immature market. He took some issue with the description of the tax reduction. He clarified that the weighted average tax was not the \$50 headline tax that was often discussed. The weighted average tax was substantially lower because of the changing product mix, and it had been declining every year. He thought \$19 was more appropriate as the base if one were to examine the tax on a weighted average basis.

Representative Josephson relayed that the cultivator would receive a tax cut of nearly 50 percent if the amendment were to pass. He noted that DOR agreed that it was a tax cut. If HB 119 resulted in a 20 percent increase in sales and there was a 5 percent growth rate, the state might reach \$28 million again in around ten years. He thought it was a policy call. He did not think there was anything particularly "magic" about the 6 percent figure and it would be one of the lowest tax rates in the country. The proposal to reduce the cultivator's tax was a structural change.

[10:59:09 PM](#)

Co-Chair Edgmon understood that the industry was at a tipping point according to the testimony he had heard. He thought that reinstating the cultivator's tax could make or break many businesses and many could find it too expensive. The bill seemed to be reasonable from the angle of economic development and growth and changing the bill drastically would cast doubt.

Representative Galvin wanted clarification on what the amendment would do. She asked if the amendment would tax the cultivator.

Representative Josephson clarified that the amendment would not apply an additional cultivator tax, it would reduce the tax on cultivators. The product would be weighed on a scale and would be priced at \$10 per ounce. There was an expectation that the cultivator's tax would be eradicated, but it was not his personal expectation.

Representative Galvin asked whose scale would be used to weigh the product.

Representative Josephson answered it would be the farmer's scale.

Co-Chair Edgmon called the question.

[Although not explicitly stated, the objection was maintained.]

A roll call vote was taken on the motion.

IN FAVOR: Josephson, Ortiz

OPPOSED: Stapp, Galvin, Coulombe, Tomaszewski, Hannan, Cronk, Edgmon, Foster

Co-Chair Johnson was absent from the vote.

The MOTION to adopt Amendment 1 FAILED (2/8).

[11:02:36 PM](#)

Representative Josephson MOVED to ADOPT Amendment 2, 33-LS0636\U.2 (C.Radford, 4/30/24) (copy on file):

Page 5, line 11:

Delete "six"

Insert "10"

Representative Stapp OBJECTED.

Representative Josephson explained that the amendment would increase the sales tax rate from 6 percent to 10 percent. On a \$5 pre-roll, or a "joint," a 10 percent tax would add \$0.50. He understood that consumers would purchase the joint for \$5, but not for \$5.50. On a \$14 pre-roll, a 10 percent tax would add \$1.40. The tax rate of 10 percent was still relatively low compared to other states and would still be considered a tax reduction.

Representative Sumner stated it was a policy call for the committee. He had originally proposed a 3 percent tax but had later increased it to 10 percent. He believed that 6 percent was appropriate. He deferred to Mr. Rice for further details.

Mr. Rice stated that he viewed it as a tax increase. He disagreed with some of the assumptions and modeling used by the Department of Revenue (DOR), but he noted that DOR's status quo model predicted that the average effective tax rate would be below 9 percent during the forecast period. He explained that the volume of consumption was also a critical factor to consider. While the tax on an individual pre-roll or joint might not be significant, the price elasticity of demand varied depending on consumption levels. He clarified that individuals who consumed the most cannabis were the most sensitive to price changes. His personal model suggested that the amendment would result in a \$17 million reduction in tax revenue, driven by a 21 percent to 36 percent reduction in demand for legal cannabis. He assumed that most of the reduced demand would shift to the black market.

11:06:18 PM

Representative Stapp opposed the amendment. He believed that the committee had thoroughly discussed the modeling. He appreciated the data provided by Representative Josephson regarding larger and smaller joints. He noted that he had always wondered about the difference between a joint and a blunt, and he asked Representative Josephson to clarify the difference and whether the tax structure would vary accordingly.

Representative Cronk opposed the amendment. He suggested that the way to increase taxes on marijuana was to encourage more people to buy it. The price needed to be lowered because there was marijuana on the black market and it was likely cheaper than what was sold in stores. If the goal was to increase revenue, the price needed to be reduced.

Representative Coulombe understood that the tax had been proposed at 3 percent, 10 percent, and 6 percent. She asked what was the "magic number" to keep it neutral.

Mr. Rice responded that after discussions with DOR, the tax neutrality number that his model produced was 6.5 percent.

Representative Galvin noted that the committee had an earlier discussion on pancaking taxes. She remarked that the tax percentage in the bill had changed many times but the number that was currently proposed was 6 percent. She

understood that Bethel had a 15 percent tax already. She asked if the taxes were going to be compounded on top of each other.

[11:09:23 PM](#)

Co-Chair Foster noted that the director of the Alcohol and Marijuana Control Office (AMCO) was available online for questions.

Mr. Rice did not recall off the top of his head what Bethel's tax rate was, but he knew it was high. He clarified that the 6 percent tax would be in addition to existing taxes.

Representative Galvin highlighted that if the tax rate was moved to 10 percent, Bethel's tax would change to 25 percent. She thought that it would change the modeling considerably for the consumer who was spending, for example, around \$150 per week. She was trying to highlight that some areas of the state had higher tax rates than others. She appreciated that the amendment was trying to recoup some revenue because the presentation of the fiscal notes and lost revenue was frightening. She was trying to evaluate the decisions because the programs that would be cut were important to small communities throughout the state that already had a sales tax higher than 10 percent.

JOAN WILSON, DIRECTOR, ALCOHOL AND MARIJUANA CONTROL OFFICE, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (via teleconference), responded that she talked to cultivators every month who were trying to decide whether to stay in business. While there may be concerns about the reduction in the taxes, there was a high likelihood that a number of cultivators would continue to go out of business. She hoped that the committee could balance the survivability of the industry until the state could implement a retail tax that would tax not just the plant, but products coming from the plant. There were 231 cultivators in Alaska and 178 stores. The cultivators had a reason to be responsive to price and there had been a huge impact in just the seven years that the industry had been in place in the state. She explained that the governor's task force had debated all of the issues and the bill represented the consensus model of the 15 members.

[11:13:37 PM](#)

Representative Josephson asked Mr. Rice how he accounted for the massive loss in revenue in the programs.

Mr. Rice replied that he was not certain what Representative Josephson meant. Tax neutrality referred to the status quo and there was no loss at the status quo tax rate other than the short-term immediate loss from the reduction that was quickly made up with larger revenues at 6.5 percent.

Representative Josephson did not think Mr. Rice's explanation was supported by the fiscal notes or testimony he had heard from Dan Stickel, the chief economist at DOR.

Representative Sumner clarified that DOR had presented a number of different scenarios to the committee and what was reflected in the fiscal notes was the absolute worst case scenario. He understood that DOR projected that there was not much certainty but the modeling he had done most recently was more accurate.

Co-Chair Edgmon relayed that the initiative that created the status quo 6 percent program passed in 2014 and it had been 10 years. He thought the initiative was fairly generic and broad. He remembered that 10 years ago, there were comments warning against letting time pass without checking in and making sure that there was a balance point between supply and demand. The task force had spent a lot of time discussing the bill and it was a "make or break" bill. The 6 percent rate attempted to achieve a balance point. He thought that a 3 percent tax might be more akin to building more businesses throughout the state. He thought marijuana was unlike the alcohol industry and he did not think it was a mature industry. He thought the legislature should follow the task force's recommendations. He would be opposed to any amendments.

Representative Hannan shared that her thoughts were similar to those expressed by Co-Chair Edgmon. When she initially heard about the bill, her concern was that a revenue stream had been created from the designated revenue. The committee had just discussed HB 223, which would eliminate higher amounts of revenue to encourage keeping Alaskans warm in their homes. However, lost revenue was not discussed because there was no dedicated stream. The legislature had tied marijuana taxation to specific programming to

illustrate its moral and ethical concerns about the industry. For example, the concern about a potential uptick in juvenile delinquency and addiction was addressed by allocating money to drug prevention programs. However, if the discussion was about the industry in Alaska, she believed that maintaining its functionality was more important than the lost revenue. She urged the committee to recognize that it would need to address the funding of the programs through other UGF over the next few years if the committee wished to ensure the continuation of the programs. She understood that the primary concern had been the potential loss of those programs. She asserted that the responsibility did not lie with the tax; it was, instead, the broader responsibility of the legislature.

Representative Hannan opposed the amendment because, as Representative Edgmon had stated, the marijuana businesses were Alaskan businesses and the workers were Alaskans, unlike the oil industry where 40 percent of the workforce was non-Alaskan. Due to the unique banking challenges faced by the businesses, it was not possible to purchase goods from out of state and transport them to Alaska. The businesses were instead procuring goods, services, and support within Alaska. The ripple effect of the industry had a greater impact in local communities.

[11:21:01 PM](#)

Representative Tomaszewski asked if Mr. Rice had been referring to the old calculations of \$50 an ounce, \$25 an ounce, and \$15 an ounce for the good, medium, and poor grades in relation to the new tax structure proposed in the bill.

Mr. Rice responded that Representative Tomaszewski's assumption was correct. He explained that the 6.5 percent parity referred to his forecast for the status quo.

Representative Tomaszewski asked if Mr. Rice had taken into account the steady decline in the amount of the \$50-an-ounce product, and whether the decline had been calculated or projected in his analysis.

Mr. Rice reiterated that Representative Tomaszewski's observation was completely correct. He added that the steady and predictable decline in the highest-taxed

cannabis products was a key area of differentiation between his assumptions and modeling, and the modeling from DOR.

Representative Tomaszewski argued that, given that manufacturers applied their own tax to products sold to retail stores, the new tax structure of 6.5 percent would likely result in a significant increase in tax revenue. The product being sold at retail locations would likely be of higher quality, as he did not believe a large amount of low-quality trim would be sold to retail stores. When he considered the steady decline in high-grade products, he assumed that some products, although not the highest quality, were likely still of a higher grade. He argued that with the new tax structure, 6.5 percent would generate higher tax revenue than before, based on the fact that the grading system would differ under the new structure compared to how it had been previously done. He concluded that he would oppose the amendment.

[11:24:05 PM](#)

Representative Josephson remarked that it was interesting that Mr. Rice had taken issue with DOR's modeling. He explained that Mr. Stickel was the person the legislature relied upon for modeling. He explained that Mr. Stickel had provided a generous and favorable modeling line for the bill, including a 20 percent increase in sales after the tax change and a 5 percent growth rate. He noted that Mr. Stickel was one of the most talented people in DOR and when the department needed precision, it turned to Mr. Stickel, particularly when establishing tax rates and modeling for oil and gas.

Representative Cronk MAINTAINED the OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Josephson, Ortiz

OPPOSED: Tomaszewski, Cronk, Galvin, Hannan, Coulombe, Stapp, Foster, Edgmon

Co-Chair Johnson was absent from the vote.

The MOTION to adopt Amendment 2 FAILED (2/8).

[11:25:52 PM](#)

Representative Josephson MOVED to ADOPT Amendment 3, 33-LS0636\U.3 (C.Radford, 4/30/24) (copy on file):

Page 5, line 11:
Delete "a six"
Insert "an eight"

Representative Cronk OBJECTED.

Representative Josephson MOVED to ADOPT conceptual Amendment 1 to Amendment 3. He explained that the conceptual amendment would insert "seven percent" on line 3.

There being NO OBJECTION, it was so ordered. Conceptual Amendment 1 to Amendment 3 was ADOPTED.

[11:26:24 PM](#)

Representative Josephson explained Amendment 3 as amended. He understood that Representative Stapp had a fiscally conservative stance and pointed out that there was a \$20 million revenue deficit from the bill, which would shrink slightly over time but remain into the 2030s. He added that a 7 percent excise tax would be the lowest in the country.

Representative Stapp understood that Representative Josephson had been describing the different tax structures for various marijuana products. He inquired if there were additional variations to consider. He explained that while he did not oppose having the lowest excise tax in the country, he felt the underlying bill would generate less tax revenue than the amendment would. As a fiscal conservative, he was uncomfortable with raising taxes.

Representative Cronk thought that to increase tax revenue, more customers would need to be brought into the stores. Keeping prices high would not achieve that goal. As an analogy, if a hotel charged \$300 per night, the hotel might only get a few customers, but at \$150, the hotel could attract many more, ultimately making more money. He concluded by stating that he opposed the amendment.

Representative Ortiz asked if there was data to show that the market share of the black market had been steadily increasing since the legalization of marijuana in 2014, and

whether the legal retail market was continuing to lose ground to illegal sales. He asked if there was any data on the trend.

Mr. Rice responded that he had attempted multiple methods to quantify the black market and had come up with a variety of numbers, all of which were quite large and consistent with research from other states. He noted that the key driver of the market shift, as he had previously described, was the change in the product mix. He explained that the highest-quality cannabis, defined as bud at \$50 an ounce, had steadily decreased in availability, while lower-quality products had increased. The shift had led to a reduction in the weighted average tax rate and would ultimately lead to a decrease in the total tax revenue collected by the state. He expected the trend to continue.

Representative Ortiz acknowledged Mr. Rice's response, stating that it was sufficient for the time being.

Mr. Bickford suggested that the committee could benefit from hearing additional input from either Ms. Wilson or Mr. Emmett.

Ms. Wilson explained that while she had not been able to quantify the black market, she could provide an example. She recounted a case from the current year in which a manufacturer unlawfully brought \$3 million worth of THC oil into Alaska from California, avoiding taxation. The product was untested, and little was known about its source. She stressed that there were many ways people tried to bypass taxes, creating risks to the public's safety.

[11:30:53 PM](#)

Mr. Emmett replied that one could easily go online and find marijuana that was about 50 percent of the price of marijuana in stores in Alaska. He explained that anyone in the marijuana industry, including himself as a licensee of a vertically integrated marijuana business, would know that marijuana could be found at bars around the city priced at half the rate charged in stores. He maintained that the black market in Alaska could make up as much as 40 percent of the total market. He acknowledged that while he did not have hard data to confirm this, he thought that anyone who purchased marijuana would agree that the black market was strong in Alaska. He added that anyone who owned a

marijuana business would attest that they were in direct competition with it. He emphasized that it was well-known that prohibition had failed, despite enforcement efforts, and the black market remained entrenched. Both he and the task force agreed that the only way to eliminate the black market was through economic principles. He stated that a three percent sales tax would ultimately generate more revenue by encouraging more legal, tax-regulated marijuana sales than the status quo or an increase in the tax rate would.

Co-Chair Foster asked for confirmation that Mr. Emmett was the chairman of the governor's task force.

Mr. Emmet responded in the affirmative.

Representative Ortiz explained that his original question was not about the presence of a strong black market but about whether it was gaining a larger share of the market. He acknowledged that it would be difficult to quantify. He also noted that the bill was brought forward with the intention of making the legal marijuana industry more competitive, but he wanted to ensure that the focus remained on making the industry competitive with the black market. He recalled the promises made by entities that advocated for the legalization of marijuana, including the expectation that revenue would support programs such as rehabilitation, re-entry services, and after-school programs. However, based on the fiscal notes, it seemed that the promises were no longer part of the equation. He was concerned about the cost of competing with the black market and questioned the broader societal impact and the potential effects on the community.

Co-Chair Edgmon acknowledged that DOR had provided estimates, but he pointed out that the marijuana industry had raised concerns that cultivators were paying taxes on an honor system. The situation led to an unclear distinction between the legal and black markets because industry members not paying taxes could be considered part of the black market. He mentioned that DOR had a few people who could canvass the state, but the department was not able to closely monitor who was paying taxes and who was not. He emphasized that the marijuana industry was still in its early stages, and he believed it was crucial to give it a chance to develop. For that reason, he stated that he would oppose the amendment.

Representative Cronk expressed concerns about businesses going out of business due to excessive taxation. He argued that taxing a business out of existence was counterproductive, as it would result in no revenue being generated. He suggested that it was better to help businesses stay afloat and close the gap than to let the businesses fail, noting that if a business failed, there would be no tax revenue to collect. He concluded by saying, "you cannot tax zero."

[11:35:39 PM](#)

Representative Josephson relayed that, according to the International Cannabis Policy Study Group, higher prices were responsible for 27 percent of consumers turning to the black market. He pointed out that there was evidence suggesting that in Anchorage, an increase in alcohol taxes led to a surprising outcome: the tax on hard liquor was doubled, but sales grew by 41 percent, and the tax on wine tripled, resulting in a 56 percent increase in sales. He acknowledged that his staff had reminded him that if the goal was to compete with the black market, which accounted for 50 percent of sales, the bill would not be successful at achieving its goal. He also did not think the anecdotal scenarios would be solved by the bill. He highlighted the fiscal impacts mentioned in the fiscal notes, including effects on programs like CDVSA, other domestic violence programs, vocational education programs, and recidivism reduction efforts. He emphasized that the state budget was interconnected with the issues. While he wanted to support the lowest possible tax, which would be 7 percent, he still requested the committee's support for the bill.

Representative Cronk MAINTAINED the OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Ortiz, Josephson

OPPOSED: Cronk, Galvin, Tomaszewski, Stapp, Foster, Edgmon, Hannan, Coulombe

Co-Chair Johnson was absent from the vote.

The MOTION to adopt Amendment 3 as amended FAILED (2/8).

11:38:06 PM

Representative Josephson WITHDREW Amendment 4 (copy on file).

11:38:35 PM

AT EASE

11:41:31 PM

RECONVENED

Representative Hannan thought that it was too late to discuss her concerns fully but explained that she was considering offering a similar amendment as Amendment 4. She recalled that since her election six years ago, there had been several issues with the marijuana industry, with one issue standing out clearly: the challenge of cash management. She noted that DOR had been claiming for six years that it had workarounds in place and would accommodate the industry by creating secure depositories; however, despite being allocated funds last year to do so, the department had not completed a second depository. She explained that currently, everyone paying the tax had to fly to Anchorage with cash in order to pay it in person. There was only one secure depository for cash tax payments, which she deemed an unreasonable and risky practice that likely led to inaccurate tax collection.

Representative Hannan continued, expressing that it had never occurred to her to put a requirement in statute for the department to establish a secure depository in each judicial district. She mentioned that the department might argue that such a measure would have a huge fiscal note, but despite receiving funds last year for the project, the department had still not opened a second depository in Juneau. She would consider presenting the issue as an amendment on the floor. She acknowledged that one common complaint on the floor was the practice of doing committee work during floor sessions, and she was uncertain about proceeding. She turned to Representative Josephson for his thoughts.

Representative Josephson responded that his staff had indicated that there were alternative ways to transfer funds from marijuana revenue locations to a single source without the need for flying or violating the law. He explained that he had been instructed that no further

action was needed on the issue, and he saw no value in offering the amendment, especially considering the fiscal note and the fact that the state was moving in the wrong financial direction. He added that an amendment should not be discussed before it was officially introduced.

Co-Chair Foster asked if Representative Josephson wanted to offer the amendment.

Representative Josephson responded in the negative.

Representative Stapp asked if the committee was finished with amendments. He suggested that it could move forward with the business of the committee since it was now approaching midnight.

Co-Chair Foster agreed with Representative Stapp.

Representative Josephson stated that he was happy to offer Amendment 4 if committee members wanted him to. [There was not interest in hearing the amendment at the time.]

[11:45:25 PM](#)

Co-Chair Foster noted the amendment had been withdrawn and no amendments had been adopted, which meant that there was no need for a clean CS.

Representative Stapp MOVED to REPORT CSHB 119(L&C) out of committee with individual recommendations and the accompanying fiscal notes.

There being NO OBJECTION, it was so ordered.

CSHB 119(L&C) was REPORTED out of committee with seven "do pass" recommendations, two "amend" recommendations, and one "no recommendation" recommendation and with seven new fiscal impact notes from the Department of Corrections, three new fiscal impact notes from the Department of Health, one new fiscal impact note from the Department of Public Safety, one new fiscal impact note from the Department of Revenue, and one previously published zero note: FN1 (ADM).

Co-Chair Foster expected to take remaining bills up from the schedule the following day.

11:47:24 PM
AT EASE

11:48:09 PM
RECONVENED

Co-Chair Foster noted HB 149 would be heard at the 9:00 a.m. meeting.

ADJOURNMENT

11:48:43 PM

The meeting was adjourned at 11:48 p.m.