

HOUSE FINANCE COMMITTEE
May 10, 2024
9:07 a.m.

9:07:25 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:07 a.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

Senator Forrest Dunbar, Sponsor; Brodie Anderson, Staff, Representative Neal Foster; Derek Nottingham, Director, Division of Oil and Gas, Department of Natural Resources; John Boyle, Commissioner, Department of Natural Resources; Representative George Rauscher, Sponsor.

PRESENT VIA TELECONFERENCE

Nicole Tham, Operations Manager, Division of Community and Regional Affairs, Department of Commerce, Community and Economic Development; Maggie Humm, Executive Director, Alaska Legal Services Corporation; Emily Nauman, Director, Legislative Legal Services.

SUMMARY

HB 223 TAX & ROYALTY FOR CERTAIN GAS

CSHB 223(FIN) was REPORTED out of committee with three "do pass" recommendations, one "do not pass" recommendation, three "no recommendation" recommendations, four "amend" recommendations and with one new indeterminate fiscal note from the Department of Natural Resources and one new indeterminate fiscal note from the Department of Revenue.

HB 400 CORRESPONDENCE STUDY PROGRAMS; ALLOTMENTS

HB 400 was SCHEDULED but not HEARD.

SB 104 CIVIL LEGAL SERVICES FUND

SB 104 was REPORTED out of committee with six "do pass" recommendations and five "no recommendation" recommendations and with one new zero note from the Alaska Judicial System and one previously published fiscal impact note: FN3 (CED).

SB 151 MISSING/MURDERED INDIGENOUS PEOPLE;REPORT

SB 151 was SCHEDULED but not HEARD.

SB 170 EXTND SR BENEFITS; REPEAL LONGEVITY BONUS

SB 170 was SCHEDULED but not HEARD.

SB 205 AHFC AUTHORITY TO ACQUIRE BUILDING

SB 205 was SCHEDULED but not HEARD.

SB 259 COMPENSATION FOR CERTAIN STATE EMPLOYEES

SB 259 was SCHEDULED but not HEARD.

Co-Chair Foster reviewed the meeting agenda.

#sb104

SENATE BILL NO. 104

"An Act relating to appropriations to the civil legal services fund."

[9:09:57 AM](#)

Co-Chair Foster asked for a brief recap of the bill. [The bill was previously heard on May 2, 2024.]

SENATOR FORREST DUNBAR, SPONSOR, relayed that the bill increased funding from 10 percent to 25 percent of certain legal fees collected by the Court System. The funding was collected for the Alaska Legal Services Fund to provide free civil legal services for low-income Alaskans and was the number one provider of legal services to victims of domestic violence in the state. He listed the available invited testifiers.

Co-Chair Foster asked for a review of the fiscal note.

NICOLE THAM, OPERATIONS MANAGER, DIVISION OF COMMUNITY AND REGIONAL AFFAIRS, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (via teleconference), reviewed the Department of Commerce, Community and Economic Development (DCCED) fiscal impact note (FN3 (CED) dated February 16, 2024. She reported that the fiscal note reflected the increase from 10 percent to 25 percent, appropriated to the Alaska Legal Services Fund.

Representative Tomaszewski asked where the money would go if it was not directed to the civil legal services fund. Senator Dunbar believed the funds would go to the general fund and would not be appropriated to the Court System. He deferred to DCCED for further answer. Ms. Thams answer was inaudible, and the question was repeated. He wondered where the extra 15 percent was currently going. Ms. Tham deferred to the Court System for the answer.

Representative Josephson recalled that the Nancy Meade had previously testified that the funds would go to the General Fund (GF).

Representative Coulombe asked if the financial statements for the fund were publicly available.

MAGGIE HUMM, EXECUTIVE DIRECTOR, ALASKA LEGAL SERVICES CORPORATION, (via teleconference), replied in the affirmative.

Representative Coulombe asked where they could be found. Ms. Humm answered that as a non-profit the corporation was required to make its financial statement publicly available. She was uncertain if they were on posted on the website and would respond in writing.

Senator Dunbar thanked the committee for hearing the bill.

Co-Chair Johnson MOVED to REPORT SB 104 out of committee with individual recommendations and the accompanying fiscal notes.

There being NO OBJECTION, it was so ordered.

SB 104 was REPORTED out of committee with six "do pass" recommendations and five "no recommendation" recommendations and with one new zero note from the Alaska Judicial System and one previously published fiscal impact note: FN3 (CED).

Co-Chair Foster thanked the sponsor.

#hb223

HOUSE BILL NO. 223

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

Co-Chair Foster recounted that in the prior hearing [May 1, 2024] some amendments were adopted and noted that Alaska Legal Services had recommended two technical amendments in response to the adopted amendments.

Co-Chair Johnson MOVED to ADOPT the proposed committee substitute for HB 223, Work Draft 33-LS0886\H (Nauman, 5/3/24).

Co-Chair Foster OBJECTED for discussion. He invited his staff to explain the new committee substitute (CS).

BRODIE ANDERSON, STAFF, REPRESENTATIVE NEAL FOSTER, explained the changes in the CS. The CS incorporated all of the amendments passed on May 2, including conforming changes authorized to Legislative Legal Services. He indicated that in the process of drafting the CS, legal

services had identified two provisions that needed further clarification and submitted two technical amendments.

Co-Chair Foster asked for a brief summary of the amendments incorporated into the CS.

Mr. Anderson complied and recalled that Amendment 1 offered by Representative Stapp added the designation of Middle Earth into the bill. He delineated that Amendment 3 offered by Representative Josephson had been conceptually amended to reduce the royalty to 3 percent and include a 10 year sunset provision. Amendment 4 offered by Representative Coulombe dealt with the royalty. He noted that Amendment 10 offered by Representative Josephson passed unanimously and added the language "by the lessee." He continued that Amendment 11 by Representative Coulombe was adopted with a conceptual amendment that deleted part of the original amendment. Amendment 12 by Representative Coulombe deleted the word "economically." Amendment 13 by Representative Stapp discussed Middle Earth and the discount royalty and was conceptually amended. Finally, Amendment 15 by Representative Josephson added reserve based lending to the bill.

[9:22:00 AM](#)

Co-Chair Foster wanted to ensure the amendments had been characterized accurately. He asked members for any comments. None were received.

[9:22:34 AM](#)

Co-Chair Foster MOVED to ADOPT Amendment 1.

Page 1, line 12, following "latitude":
Insert "from which commercial production of oil or gas begins after July 1, 2024, and before January 1, 2035"

Page 2, line 4:
Delete "that begins after July 1, 2024;"
Insert ";or"

Page 2, lines 6 - 7:
Delete 11; or (3) January 1, 2035"

Page 6, line 2:
Delete "2035"
Insert "2045"

Representative Stapp OBJECTED for discussion.

Mr. Anderson explained the amendment. Legislative Legal Services deduced that clarifying language was necessary for the royalty discount sunset. The entity pursuing the discount would have 10 years to receive the discount and 10 years to utilize it. He delineated that production would have to happen between July 1, 2024, and January 1, 2035. The expiration of the 3 percent discount would be January 1, 2045.

Co-Chair Foster asked legal services for comment.

EMILY NAUMAN, DIRECTOR, LEGISLATIVE LEGAL SERVICES, (via teleconference), had no comments on the explanation. The amendment was to clarify the intent of the committee.

Representative Josephson stated his understanding of the amendment and provided examples. He asked whether he was correct. Ms. Nauman agreed. She expounded that the benefit ran for 10 years as long as it [production] started in the window between July 1, 2024, and January 1, 2035. She exemplified that if production began in 2030 the benefit would end in 2040. She pointed to page 1, line 15 of the bill that contained the 2045 date. She indicated that it was the last possible day that someone could take the royalty reduction.

[9:25:52 AM](#)

Representative Galvin asked for clarity on page 2 of the amendment. She recalled that the committee had discussed language regarding a project lapse for 6 months. Ms. Nauman responded that the Department of Natural Resources (DNR) spoke to the issue during the last committee hearing on the bill. She noted that the item was part of Amendment 2. Representative Galvin would wait until Amendment 2 was discussed.

Representative Josephson relayed that they (the committee?) (legislature?) suspended parts of what was called the "Cook Inlet Renaissance" in HB 247 [Tax; Credits; Interest; Refunds; O & Gas, Chapter 4 4SSLA 16,

06/28/16] He provided a scenario that took place 10 years in the future with substantial new production in Cook Inlet and elsewhere. He asked if the legislature could undo the bill at that time and suspend the terms. Ms. Nauman answered that it was a tricky question to answer. She understood that royalty rates were locked in by contract and altering a law could not change the terms of the contract, under certain circumstances. She reported that DNR had some authority to change the rates depending on the language in the contract. There was some potential that if the state relied on the rates and entered into a contract it could not make the royalty change.

Representative Stapp withdrew the objection.

Representative Josephson OBJECTED for the purpose of discussion. He commented that the committee needed to be wide eyed about what they were doing. He related that Cook Inlet royalties were currently \$40 million per year. He hypothesized a scenario where the discount was doubled, and the state lost \$30 million each year. He calculated that \$30 million times 20 years was \$600 million. He believed his scenario was unlikely. However, the committee just learned that it could not be undone easily. He cautioned the committee and wanted to draw attention to the issue.

Representative Josephson withdrew the objection.

There being NO further OBJECTION Amendment 1 was ADOPTED.

[9:30:25 AM](#)

Co-Chair Foster MOVED to ADOPT Amendment 2.

Page 2, lines 21 - 22:

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 Stapp OBJECTED for discussion.

Mr. Anderson explained that the amendment was a clarifying amendment. Legislative Legal Services had questions regarding the intent of prior Amendment 6. Amendment 6 had

passed and removed all references to Cook Inlet oil from the bill. Subsequently, Representative Coulombe offered a conceptual amendment that deleted the part of her Amendment 11 that referenced Cook Inlet oil since it had already been removed by Amendment 6. However, later in the meeting the committee rescinded action on Amendment 6, and it failed. The committee never doubled back to Amendment 11 to consider whether the deleted section should be reinstated. Legislative Legal Services determined that the issue should be resolved in committee. He elaborated that Amendment 2 took lines 7 through 11 from Amendment 11 and offered it again as an amendment to determine the will of the committee. He briefly summarized how the Department of Natural Resources interpreted Amendment 2. He elaborated that the amendment revised one way that oil could be considered as new to become eligible for the royalty reduction in order to drive new oil production in Cook Inlet. The amendment removed the 2024 restriction that some production could go offline in 2025 or later and included sideboards for the field to be offline for at least six months "to avoid operators from gaming the system." He offered that the committee could ask for clarification from DNR.

[9:34:00 AM](#)

Ms. Nauman agreed with the summary provided by Mr. Anderson.

Representative Hannan wondered if the date was removed, whether an operator had a full ten year period to receive the royalty relief.

Mr. Anderson deferred to the department.

DEREK NOTTINGHAM, DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, confirmed that if the date was removed any field that would temporarily stop producing and subsequently start again could receive the royalty benefit until 2035.

[9:35:31 AM](#)

Representative Hannan stated that the answer troubled her. She related that that most of the discussion around the bill had been incentivizing immediate action. She believed that that royalty relief was a "really big deal" meant to

incentivize an immediate crisis. However, if Cook Inlet production did not significantly increase within the next 5 to 7 years there would be another solution by then. She did not support allowing a company who stopped production to come back online in the next 5 to 7 years or so and still be eligible for royalty relief and allow that for a 20 year window. She suggested moving the date to 2025 or 2026. Her view was the reduction in royalty was to incentivize immediate production or in the near future. She was uncomfortable eliminating the date.

Representative Stapp did not understand Representative Hannan's analogy. He wondered if she was suggesting that a company would spend significant amounts on capital and operating expenditures on a field then freeze production, fire everyone, and subsequently resume production when the economics were more favorable and repeat the process until 2035.

Representative Hannan disagreed with his summation of her remarks. Her point was regarding the 20 year window where that could happen. She reiterated that the incentive was intended for a quicker response and narrower time window. She deduced that the amendment was a more permanent change to the Cook Inlet oil royalty, which she did not believe was the intent of the bill.

Co-Chair Foster asked for any comments from the commissioner.

Representative Galvin reminded the committee that the amendments had been made late into the night without any outside advisory. The committee had heard from the department and individual companies advocating on their own behalf. They had not heard from anyone regarding modeling the amendment and its potential affects. She was concerned about the extended timeline and being able to afford other things that Alaskans care about. She emphasized that the committee had not gone through a process that would normally happen with "very big decisions" like royalty reductions. She cautioned that the committee "carefully" "walk the line" regarding incentivizing gas and oil and the ability to spend on other budget expenditures.

[9:40:28 AM](#)

JOHN BOYLE, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, suggested that he was favorable to potentially lengthening the window to one year. He did not believe the likelihood was high that an oil company would sit idle for a year after it made significant investments just to "game the system." He reiterated that the department had a "good sense" why and when wells were "shut in." He proposed that if "a year made the committee feel more comfortable" the department would not oppose that length of time.

Representative Stapp MOVED to ADOPT Conceptual amendment 1 to Amendment 2.

Representative Stapp moved to remove the words "six months" on lines 4 and 5 and replacing it with the words "one year."

There being NO OBJECTION, conceptual Amendment 1 to Amendment 2 was adopted.

Ms. Nauman asked if the committee wanted to also change the six month range specifically related to gas on page 2, line 13 of the bill.

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Commissioner Boyle answered that gas and oil could have different economics. He recommended extending the time to a year. He thought six months was slightly more generous for gas development. However, if the intent was to act as an incentive, the latter could produce better results.

Representative Galvin thought the question would be great for an advisor who knew the fields and would know how to answer the difference between Cook Inlet oil and gas fields and how they produce. She advocated for more information on major decisions before voting on them.

Co-Chair Edgmon relayed that he had listened to the Gaffney Cline [GaffneyCline and Associates, Energy Advisory] from the Senate hearing and his concerns had been somewhat assuaged since the last hearing. He supported some relief

for Cook Inlet, but not zero relief. He believed that there was a middle ground and wanted the bill to move forward.

[9:46:25 AM](#)

Representative Ortiz noted that he had previously raised concerns about the issue earlier in other bill hearings.

Co-Chair Foster MOVED to ADOPT Amendment 2 as amended.

Representative Hannan objected.

A roll call vote was taken on the motion.

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

OPPOSED: Josephson, Ortiz, Hannan

The MOTION PASSED (8/3).

[9:49:25 AM](#)

Representative Ortiz shared his concerns with the bill. He related that he was aware of the problems in Cook Inlet and wanted to support the bill. However, he acknowledged that future revenue challenges were expected yet there would still be the same demands on the budget. He cautioned that as the committee moved forward with HB 223 or any other type of bill considering revenue reductions, it needed careful consideration. The demand for revenue would remain in the future. He understood the importance for people to have enough energy to heat their homes. He reminded the committee that the future for revenue was not that bright. He acknowledged that there would not be revenue [from Cook Inlet] if there was not production. He characterized it as a "Catch 22." He thought about the next year's budget forecast and budgeting in relation to dropping to a 3 percent share of royalties. He reminded members that investors were not dropping their royalty shares. It was the state that was providing the subsidy. He did not know what his vote on the bill would be. He would let it move from committee without objecting but would have a difficult time supporting it on the House floor.

[9:53:14 AM](#)

Representative Hannan voiced that Representative Ortiz's concerns were similar to hers. She wanted to resolve South Central's impending gas crisis, however she deduced that was a short term issue that would be resolved regardless of the effectiveness of royalty relief. Her concerns largely lay with the oil portion of the royalty relief. She elaborated that Cook Inlet had the oldest oil infrastructure in that state and a lot of shut in oil facilities that should have been cleaned up. She believed that it delayed cleanup of rusting infrastructure for another 20 years because a producer could say they might start drilling again. She maintained her revenue concerns and did not know how she would vote on the bill on the floor.

Representative Josephson thought the record should be clear that the governor's bill called for 5 percent royalty and the committee reduced it to 3 percent. He stated it was an aggressive bill that was supportive of gas resource development. The argument from DNR was not without merit. He recalled that the commissioner had stated that oil was an enticer to gas and deduced that it was because it was profitable. He offered that oil was not initially "part of the bargain" and currently oil royalty relief was extended for fields south of 68 degrees north latitude for 20 years. He agreed with Rep. Galvin that the affects were unknown without modeling. He would not object to moving the bill.

[9:57:10 AM](#)

Representative Galvin was concerned about some of the details. She stressed that they did not know how much revenue they were giving up and how much gas would result from the bill. She noted that there were experts who could make an informed presumption. She thanked Co-Chair Edgmon for sharing information he had viewed from a Senate Resources hearing. She was not certain the committee had done its homework. She wondered if anyone knew what they were giving up by reducing the rate to 3 percent from 5 percent. In addition, the dates had been changed and they did not know what it meant for revenue. She emphasized the unknowns. She also knew homes needed to be kept warm. She would vote in support of the bill because of the urgency.

[9:59:19 AM](#)

Co-Chair Edgmon believed that the committee had been at a disadvantage that consultants had not been brought on to advise the members earlier. Gaffney Cline had not been involved long enough to help the committee sort out all of the unknown variables. He indicated that the Cook Inlet basin had supported a good part of Alaska's economy for many years, which was fairly unique and made it harder to compare to other regimes. He deemed that 3 percent was likely too generous. He thought the bill was going in the right direction overall.

Representative Cronk emphasized that the risk of doing nothing was real. He did not understand why anyone would stop the bill from moving forward. He wanted to avoid a crisis. He believed that the state had eliminated other revenue sources including timber and mining. He surmised that "royalty from zero was still zero."

[10:02:23 AM](#)

Representative Stapp ascertained that 12.5 percent of zero was zero. He clarified that he referred to new production from existing fields that had yet to be produced. He guessed that based on royalties the state received from Cook Inlet the loss of revenue was likely around \$4 million annually from new production. Concerning the expansion to Middle Earth, there was no production on state lands in the region. He was skeptical that the reductions would be as effective as may be imagined, but he wanted to be a good team player to help with the problem. He presumed that importing natural gas would be unpopular.

Co-Chair Foster asked if the sponsor had any closing comments.

REPRESENTATIVE GEORGE RAUSCHER, SPONSOR, thanked the committee for all of the time it spent on the bill. He understood many of the stated concerns. He related that his bill had been similar to the governor's and many of the provisions had been melded. He reiterated that 3 percent of something was better than a percentage of nothing. He emphasized that something had to be done. He recounted that 12 years prior, incentives had been used and it had worked for a decade or so.

[10:06:05 AM](#)

Co-Chair Johnson MOVED to REPORT CSHB 223(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

Co-Chair Foster OBJECTED.

A roll call vote was taken on the motion.

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

OPPOSED: Ortiz, Hannan, Foster

The MOTION PASSED (8/3).

There being no further objection, CSHB 223(FIN) was REPORTED out of committee with three "do pass" recommendations, one "do not pass" recommendation, three "no recommendation" recommendations, four "amend" recommendations and with one new indeterminate fiscal note from the Department of Natural Resources and one new indeterminate fiscal note from the Department of Revenue.

10:07:41 AM

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