

HOUSE FINANCE COMMITTEE

May 1, 2025

1:40 p.m.

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CALL TO ORDER

Co-Chair Schrage called the House Finance Committee meeting to order at 1:40 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair(via teleconference)
Representative Calvin Schrage, Co-Chair
Representative Jamie Allard
Representative Jeremy Bynum
Representative Alyse Galvin
Representative Sara Hannan
Representative Nellie Unangiq Jimmie
Representative DeLena Johnson
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Erik Gunderson, Staff, Representative Calvin Schrage;
Representative Genevieve Mina, Sponsor; Katie Giorgio,
Staff, Representative Genevieve Mina; John Crowther, Deputy
Commissioner, Department of Natural Resources; Ryan
Fitzpatrick, Commercial Manager, Division of Oil and Gas,
Department of Natural Resources.

PRESENT VIA TELECONFERENCE

Michael Partlow, Analyst, Legislative Finance Division; Dom
Pannone, Director, Program Management and Administration,
Department of Transportation and Public Facilities; Casey
Sullivan, Government and Public Affairs Manager, Marathon
Petroleum, Anchorage.

SUMMARY

HB 27 MEDICAL MAJOR EMERGENCIES

CSHB 27(HSS) was REPORTED out of committee with five "do pass" recommendations, one "do not pass" recommendation, four "no recommendation" recommendations and with one previously published fiscal impact note: FN1 (DOH).

HB 194 APPROVE MARATHON PETRO ROYALTY OIL SALE

HB 194 was REPORTED out of committee with eight "do pass" recommendations and with one previously published indeterminate fiscal note: FN1 (DNR).

CSSB 57(FIN)

APPROP: CAPITAL/FUNDS/REAPPROP

CSSB 57(FIN) was HEARD and HELD in committee for further consideration.

Co-Chair Schrage reviewed the meeting agenda.

#sb57

CS FOR SENATE BILL NO. 57(FIN)

"An Act making appropriations, including capital appropriations and other appropriations; making reappropriations; making appropriations to capitalize funds; and providing for an effective date."

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Co-Chair Foster MOVED to ADOPT the proposed committee substitute for CSSB 57(FIN), Work Draft 34-GS1460\U (Walsh, 4/30/25)(copy on file).

Co-Chair Schrage OBJECTED for discussion.

Co-Chair Schrage asked his staff to review the changes in the Committee Substitute (CS).

ERIK GUNDERSON, STAFF, REPRESENTATIVE CALVIN SCHRAGE, reviewed the changes in the CS. He summarized that the CS increased deferred maintenance for kindergarten through grade twelve (K-12) schools, Judiciary, and the University of Alaska (UA). It also provided additional funding for the Alaska Travel Industry Association (AITA) while utilizing

other funds and reappropriations. He noted that a few other changes were covered in the summary of changes document. He read from the Summary of Changes (copy on file):

Page 3, lines 10-13: Department of Commerce, Community and Economic Development - increases the grant amount to Alaska Travel Industry Association from \$2,500,000 to \$5,000,000 from the general fund and specifies the grant is for "Tourism Marketing Activities in National and International Markets".

Page 3, lines 17-18: Department of Education and Early Development - increases the appropriation from the general fund to Mt. Edgecumbe High School for Replacement of Dorm Windows from \$1,365,000 to \$2,730,000.

Page 3, lines 19-21: Department of Education and Early Development - increases the appropriation to the Major Maintenance Grant Fund (AS 14.11.007) from \$19,055,000 to \$38,110,038, providing funding for the top 9 projects on the School Major Maintenance list.

Page 5, lines 11-12: Office of the Governor - increases the appropriation to the Office of the Governor for Statewide Deferred Maintenance, Renovation, and Repair from \$10,000,000 to \$20,000,000 in designated funds from the Alaska Capital Income Fund.

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Page 36, lines 24-25: University of Alaska - increases the appropriation from the general fund for Facilities Deferred Maintenance and Modernization from \$5,000,000 to \$10,000,000.

Page 37, line 3: Judiciary - increases the appropriation from the general fund for Building Repairs from \$750,000 to \$1,500,000.

Page 43, line 30 through page 44, line 3: Department of Commerce, Community, and Economic Development (DCCED) - appropriates from the general fund \$600,000 to the Department of Commerce, Community, and Economic Development for organizational grants under AS

29.05.190 to the Xunaa Borough for Fiscal Years 26, 27, and 28.

Page 44, lines 16 - 18: Department of Education and Early Development DEED) - inserts new subsection (b) as backfill language in the event that the balance of the major maintenance grant fund (AS 14.11.007) is less than \$38,110,038, the shortfall amount would be appropriated from the general fund.

Mr. Gunderson interjected that the last item was in relation to the Senate's recent CS for the operating budget which appropriated an estimated \$30 million in FY 25 lapsing operating funds to capitalize DEED's Major Maintenance Grant Fund.

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Co-Chair Schrage noted that Representative Galvin joined the meeting.

Representative Stapp inquired about the \$600,000 grant to the Hoonah (Xunna) Borough. He asked for details. Mr. Gunderson answered that the \$600,000 was part of an organizational grant through DCCED. There was a forthcoming election in Hoonah regarding expanding the city to an organized borough. Funding was provided via state statute in the event a community transitions to an organized borough.

Representative Hannan clarified that the "X" was pronounced as a "H". The funding was conditional on the outcome of the election in favor of the expansion.

Representative Stapp asked if the \$600,000 was supposed to be community assistance funding. Mr. Gunderson deferred the question to the Legislative Finance Division (LFD).

MICHAEL PARTLOW, ANALYST, LEGISLATIVE FINANCE DIVISION (via teleconference), replied that the organizational grant was provided for via statute. He delineated that it was distributed in three payments over three years. The first payment was \$200,000 within 30 days of certification of incorporation. The second payment of \$200,000 was issued within 30 days of the start of the second fiscal year after incorporation. Finally, the third payment of \$100,000 was issued within 30 days of the start of the third fiscal

year. He concluded that the grant provided startup money for a new borough. Representative Stapp asked Mr. Partlow to repeat his answer. Mr. Partlow reiterated his answer specifying the distribution of funds.

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Representative Stapp asked if the entire \$600,000 had to be front loaded. Mr. Partlow replied that via statute the funding was all available upfront to the department, but not the community.

Mr. Gunderson returned to the Summary of Changes:

Page 45, line 19: Department of Transportation and Public Facilities (DOT) - increases the amount appropriated from reappropriations to the Department of Transportation and Public Facilities for federal-aid highway state match from \$47,110,303 to \$49,702,303.

Page 45, lines 23-25: Department of Transportation and Public Facilities - reappropriates an estimated balance of \$3,457,666 from sec. 13, ch. 29, SLA 2008, page 159, lines 20-22 Palmer Wasilla Highway Improvements Phase II, toward federal-aid highway match.

Representative Johnson had some concerns and questions. She noted that the prior and following two items were reappropriations that were all decremented out of Matanuska-Susitna (Mat-Su) Borough ongoing highway projects. She thought that reappropriating funding in the middle of ongoing projects was unusual. She asked for comment.

Co-Chair Schrage answered that it was a bit unusual, but he countered that so was the budget process in the current fiscal situation. He explained that the items were included in the CS for the committee to consider and scrutinize whether the progress made on the projects warranted further funding. He offered that it was a very difficult fiscal time for the state. He noted that the appropriations were made five years' prior, and all had significant unobligated balances. Representative Johnson thought there was a misunderstanding because the road projects were not

completed and were in the middle of construction. She voiced that it was highly unusual to remove funding in the middle of a road project and believed that it was "dangerous." She thought eliminating so much from Mat-Su projects was "interesting." She would continue to speak to the issue. Co-Chair Schrage replied that he took any project with a significant unobligated balance and included it in the CS for further consideration. He furthered that on the Palmer Wasilla Highway Improvements project the original appropriation occurred 17 years ago and it's taken until the current year to spend one-eighth of the funding.

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Representative Johnson shared information regarding the Glenn Highway project, which was not a project currently in question. She recalled working on the project in the planning phases in 2005. She was intimately involved in the planning from 2010 through 2016 as mayor of Palmer. She related that right-of-way acquisition took a long time. She hoped the project would be finished in the coming summer. The project took 20 years, which was not slow or unusual. She pointed to the Fairview Loop project that involved a railroad crossing and right-of-way acquisitions. She would be looking closely at the reappropriations. She thought it was a "terrible practice" to start.

Representative Allard asked if Andy Mills was available from the Department of Transportation and Public Facilities (DOT). She asked for clarification on the project. She shared Representative Johnson's concerns.

Co-Chair Schrage answered in the negative and relayed that there was another representative available online.

DOM PANNONE, DIRECTOR, PROGRAM MANAGEMENT AND ADMINISTRATION, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), asked which project was being referred to.

Co-Chair Schrage answered that it was the Palmer Wasilla Highway Improvements Phase II project.

Mr. Pannone replied that it was an "active" project. He expounded that the remaining balance of funds were for improvements that were within the scope of the project that were requested by the City of Wasilla via a resolution. The

funds were encumbered, and the department intended to expend the funds in the coming summer. The department collaborated with the city on a planned safety project and was responding to the public's needs for the project.

Representative Allard asked how the removal of the funds would impact the area. Mr. Pannone responded that the safety project entailed turning lanes and traffic patterns that posed a risk to the traveling public. The funds were going to be under contract and encumbered. He was not certain on the technical issues if the funds were reappropriated while encumbered. He ascertained that if the project was under contract, it would subject DOT to potential legal action and the project would be delayed or stall out due to lack of funding. Representative Allard asked whether there were safety risks or if lives were at stake with the liability and she wondered if the state could be held liable if a lawsuit occurred.

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Mr. Pannone did not say the state would be liable. The project was a requested safety improvement for the identified portion of road and without the funds it would not happen.

Representative Bynum noted there were three projects totaling almost \$12 million and only one project was briefly addressed. He requested more information concerning the Palmer Wasilla Highway Improvements Phase II project, the \$8,149,630 Fairview Loop Road Reconstruction project and the Fairview Loop Road pedestrian pathway for \$201,221. He shared that in Ketchikan, there was a Tongass Highway repaving project that was in the works for a decade and the project was done in phases due to difficulties in getting the right of way and other preliminary work done. He asked about the "actual impacts" on all three projects by pulling the funds before the committee decided on the items.

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Mr. Pannone answered that regarding the Palmer Wasilla Highway project the department intended to be under construction in the coming summer. He reiterated that the reappropriation would prevent the work from happening. He offered to speak to the Fairview Loop projects.

Co-Chair Schrage interjected and inquired if pulling the funds killed or delayed the project. Mr. Pannone replied that the department would not be able to proceed .

Representative Bynum wondered about the other projects.

Co-Chair Schrage asked if they were currently under contract for construction during the coming summer. Mr. Pannone responded that the funds intended to be under contract within a "couple of months" but were not currently under contract.

Representative Hannan asked what the original appropriation in 2008 was. She noted that it was as a phase two project and asked about other prior phases. Mr. Pannone replied that he did not have all of the specific projects or scopes of work on hand. He would follow up to answer the question. Representative Hannan asked if it was correct to conclude that some of the 2008 funding had been spent and the \$3,457,666 was the amount remaining. Mr. Pannone replied that over \$500,000 had been expended from the original \$4 million appropriation. The department could also combine funding with other projects or have "multiple discreet scopes of work under an appropriation such as this."

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Representative Tomaszewski shared that he had heard from a few contractors concerning the lack of work for the coming summer. He thought the project looked to be shovel ready and removal of the funding would stop the project for the summer. He worried about contractors in the state. He asked if it would kill the projects and lessen the pool of contracts. Mr. Pannone answered that he would agree with the statement that pulling the funding could reduce the number of projects DOT was trying to "put on the street" in the coming summer.

Representative Bynum asked about the communities' expectation of the project. He also wondered if it had an impact on federal match. Mr. Pannone replied that the City of Wasilla assembly had conveyed the desire for DOT to complete the project. He believed the assembly understood the department was moving forward on the projects. He added that if the reappropriation was substituting "hard match" funding, DOT would continue to request the same amount of funding.

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Representative Galvin asked for clarification if Mr. Pannone stated there was a federal match for the funds. Mr. Pannone responded that he was speaking to any reappropriations being used to provide matching funds for the current year's federal revenue and if the reappropriations were not made DOT would continue to request the original amount of match included in the governor's budget.

Co-Chair Schrage would work to provide further clarity.

Representative Allard stated that the Mat-Su was the fastest growing area in the state and pulling the project would be detrimental.

Mr. Gunderson continued reviewing the changes in the CS:

Page 45, lines 26-28: Department of Transportation and Public Facilities - reappropriates an estimated balance of \$201,221 from sec. 7, ch.43, SLA 2010, page 36, lines 29-31, Fairview Loop Road pedestrian pathway, toward federal-aid highway match.

Page 46, lines 1-3: Department of Transportation and Public Facilities - reappropriates an estimated balance of \$8,149,630 from sec. 1, ch.17, SLA 2012, page 133, lines Fairview Loop Road reconstruction, toward federal-aid highway match.

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Representative Johnson informed the committee that the road had been an ongoing issue for quite some time. She explained that there was an offramp to the Parks Highway that provided a path to Knik Goose Bay Road. Many commuters returning from Anchorage took the exit to bypass Wasilla and arrive at Knik Goose Bay Road, which was a rapidly growing neighborhood. The current road was an old wagon farm road that was highly trafficked. She elucidated that for old roads that had been in place there were a number of properties that had to be purchased for the right-of-way acquisition. She shared that the project was in the acquisition process. She relayed more information regarding acquisitions and utility relocations over five years regarding the Glenn Highway project. She emphasized that it

took a lot of negotiations to get things in place before construction could be completed. The road in question had many houses and properties along it and was far from completion.

Representative Allard had never seen reappropriating funding from ongoing projects. She did not support taking money from one project for another. She stressed that it could cost lives and was "dangerous."

Representative Johnson drew attention to the second project; the pedestrian pathway. She related that the two projects were interrelated and was under the same appropriation.

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Mr. Gunderson continued with the Summary of Changes:

Page 46, lines 6-9: Department of Transportation and Public Facilities - reappropriates an estimated balance of \$766, from sec. 1, ch.18, SLA 2014, page 63, line 4 and allocated on page 63, lines 12-13, as amended by secs. 14(d), 21(g), and 21(h), ch.1, TSSLA 2017, Knik Arm bridge project development, toward federal-aid highway match.

Representative Johnson relayed that initially there was a much larger appropriation, and the funding was reappropriated to the Kivalina School. She hoped they would follow the rule to keep money in the same district. She understood the federal funding for the project was \$40,000,000.

Co-Chair Schrage commented that sometimes changes happened because they were warranted.

Representative Stapp thought it probably cost more than \$766. to reappropriate the \$766. He thought the administrative cost alone exceeded the amount. Co-Chair Schrage did not have any experts available to perform the calculation.

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Mr. Gunderson continued with the summary of changes:

Page 46, line 15-17: Department of Commerce, Community, and Economic Development - Alaska Energy Authority - reappropriates an estimated balance of \$782,125 from sec.14, ch.11, SLA 2022, page 117, lines 19-20, electrical vehicle infrastructure plan, toward federal-aid highway match. The Department of Commerce, Community, and Economic Development - removes reappropriation sec. 14, ch.11, SLA 2022 page 86, line 31, City of Nome, deep draft port.

Representative Bynum cited the electric vehicle program. He noted that the program was suspended by the federal government and the program could not be revived. He asked if he was correct. Co-Chair Schrage answered in the affirmative. Representative Bynum believed the suspension was unfortunate.

Representative Hannan related that the item was not in the summary of changes, but her colleague had spoken to the idea that reappropriations should remain within the same district. She pointed out that her district likely had the biggest loss on page 46, at a total of \$36 million being reappropriated; none to her district. She did not believe that certain projects or regions "were being picked on" and believed that her district was the "biggest loser"

Representative Johnson wanted to speak to the Juneau Access Road that had much local opposition. She pointed out that there currently was no road and she did not view it as a safety issue. Representative Hannan contended that she was not asserting it was a safety issue but was addressing the tradition of reappropriations remaining in the district.

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Representative Tomaszewski spoke to the road to Juneau. He would like to see more citizens of Alaska get the opportunity to come to Juneau via a road.

Co-Chair Schrage noted there was a marine highway that was available for passenger and vehicle transport to the capitol.

Mr. Gunderson continued with the Summary of Changes:

Page 51, lines 3-7: Office of the Governor - updates reappropriation language for lapsing operating funds

from the Office of the Governor to include expenses related to the commissioning of the USS Ted Stevens, US Navy Ship, and associated support activities in the state for fiscal years 2026 and 2027, not to exceed \$100,000.

Page 51, lines 23-28: Office of the Governor - updates reappropriation language for lapsing operating funds from the Office of the Governor to include capital costs and material purchases related to facilities repairs, information technology improvements and upgrades, food security, the 2026 Alaska Sustainable Energy Conference, government efficiencies, and resource development analyses, studies, and process reviews.

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Representative Stapp thought change on page 51, lines 3 through 7 was an interesting reappropriation. He recounted that the state did not commission ships. He believed that reappropriating money from the governor's office for the items listed in the prior two items was unusual and wanted further clarification.

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AT EASE

[2:30:52 PM](#)

RECONVENED

Co-Chair Schrage explained that the Navy destroyer, named after the late Senator Ted Stevens, would journey to Juneau and also visit Kodiak, Anchorage, and Ketchikan. He noted that there were funds reappropriated to provide some auxiliary support for the effort. Representative Stapp wondered what they were spending \$100,000 on. Co-Chair Schrage would follow up on the specific costs. He was aware that the state wanted an active role in the effort.

Representative Allard also would like further details. She found it peculiar.

Representative Johnson thought that typically the military took great pride in showing off its equipment. She read the language from the prior version of the bill [CS SB 57 (FIN)] on page 49, lines 13 through 16:

The unexpended and unobligated general fund balances of the following appropriations are reappropriated to the Office of the Governor for capital costs related to facility repair and maintenance, information technology infrastructure, elections equipment, and material purchases...

Representative Johnson believed that the reappropriations were removing "the funding out of maintaining infrastructure." She was concerned that funding was eliminated for the purchase of elections equipment and believed that infrastructure should be maintained for reasons like a visiting ship.

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Mr. Gunderson maintained that there was no requirement that \$100,000 was spent by the Office of the Governor. The item merely granted authority to use up to that amount of lapsing funds as it saw fit. He read the final items from the Summary of Changes:

Page 52, lines 22-25 - conforming changes.

Page 52, lines 29-30: Adds contingency language that the \$600,000 appropriation to the Xunaa Borough is contingent on the incorporation of the Xunaa Borough on or before December 31, 2025.

Mr. Gunderson relayed high level changes to the CS. He indicated that there was a projected \$730,000 reduction in Undesignated General Funds (UGF), a \$40,000,000 increase in Designated General Funds (DGF), and a roughly \$2,500,000 forecasted increase in other state funds.

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Representative Johnson asked about the next step in the budget process.

Co-Chair Schrage replied that there would be an amendment deadline set for the following week.

Co-Chair Schrage WITHDREW the objection.

Representative Johnson OBJECTED.

Representative Johnson reiterated her concern regarding the reappropriations from the Mat-Su appropriations. She believed that it placed the projects in "jeopardy," increased the projects' costs and was a "disservice" to the citizens of Alaska who relied on the safety upgrades.

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Representative Bynum supported Representative Johnson's perspective due to his understanding of the effects of delaying a project in mid-course.

A roll call vote was taken on the motion.

IN FAVOR: Galvin, Jimmie, Hannah, Schrage, Foster, Josephson

OPPOSED: Johnson, Bynum, Tomaszewski, Allard, Stapp

The MOTION PASSED (6/5). There being NO further OBJECTION, work draft 34-GS1460\U (Walsh, 4/30/25) was ADOPTED.

Co-Chair Schrage set an amendment deadline for Monday, May 5 at 12:00 p.m.

Representative Allard remarked on the amendment deadline. She asked to move the deadline to Tuesday.

Co-Chair Schrage replied that he would not change the amendment deadline.

CSSB 57(FIN) was HEARD and HELD in committee for further consideration.

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AT EASE

[2:40:38 PM](#)

RECONVENED

#hb27

HOUSE BILL NO. 27

"An Act relating to medical care for major emergencies."

[2:40:48 PM](#)

Co-Chair Foster relayed that the committee held two prior hearings on the bill. He requested a recap of the bill.

REPRESENTATIVE GENEVIEVE MINA, SPONSOR, provided a recap of the bill that modernized Alaska's Emergency Medical Services System (EMS), which had an excellent system of trauma care but lacked the same to respond to strokes and heart attacks. She furthered that there were many gaps in many areas of the state that would benefit from a system of care structure that also provided data and enhanced coordination among responders and providers.

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Co-Chair Schrage MOVED to REPORT CSHB 27(HSS) out of committee with individual recommendations and the accompanying fiscal note.

Representative Allard OBJECTED.

Representative Allard disagreed with the "entirety of the bill." She discussed the cost of the bill that she determined would cost approximately \$1,200,000. She did not believe that due to fiscal circumstances the committee should refrain from spending on bills.

Co-Chair Foster asked Rep. Mina to address the fiscal note.

Representative Mina summarized that in FY 2026, the bill would cost \$240,600 and would continue to cost \$216,600 specifically for an additional staff position in the EMS Office. She deferred to Mr. Wiseman for details.

Representative Allard maintained her objection due to the costs.

[2:45:43 PM](#)

AT EASE

[2:46:12 PM](#)

RECONVENED

Representative Galvin spoke in favor of the bill. She recalled that the state would experience cost savings or at least cost neutrality due to the immediate response to strokes that improved outcomes creating savings for the long-term.

Representative Mina discussed the cost savings of the bill. She lacked exact numbers but agreed that the proper immediate response saved in long-term costs of care that was often covered by Medicaid.

Representative Allard asked what department would gain the additional staff. Representative Mina answered that it was specifically in the Office of Emergency Medical Services, Department of Health (DOH). Representative Allard maintained her objection and believed that departments had "slush funds" due to the many vacancies.

Representative Tomaszewski had been a recipient of one of the major emergencies in the past. He appreciated the medical treatment he received and believed that there were discrepancies in the system in the state. He would support moving the bill moving forward.

Representative Stapp would vote no to move the bill out of committee due to costs.

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Representative Johnson relayed that she would be a no vote. She appreciated the sponsor and the need for the services in the state.

KATIE GIORGIO, STAFF, REPRESENTATIVE GENEVIEVE MINA, addressed some of the comments. She offered that the state had a trauma system of care for many years that yielded great results. The bill was requested by all types of EMS medical professional in the state. They expected to experience "real results" for patient outcomes and cost savings.

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A roll call vote was taken on the motion.

IN FAVOR: Representative Tomaszewski, Hannan, Galvin, Bynum, Jimmie, Schrage, Foster
OPPOSED: Stapp, Johnson, Allard

The MOTION PASSED (7/3).

There being NO further OBJECTION, CSHB 27(HSS) was REPORTED out of committee with five "do pass" recommendations, one

"do not pass" recommendation, four "no recommendation" recommendations and with one previously published fiscal impact note: FN1 (DOH).

Representative Mina thanked the committee for hearing the bill.

#hb194

HOUSE BILL NO. 194

"An Act approving and ratifying the sale of royalty oil by the State of Alaska to Marathon Petroleum Supply and Trading Company LLC; and providing for an effective date."

[2:53:44 PM](#)

JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, explained that the bill sought legislative approval for a "royalty in kind" contract, which was how the state disposed its share of royalty oil. It was a longstanding process and resulted in a small premium to the state versus the average value of royalty, supported the state's refineries, and ensured fuel security. He asked for the committee's support for the bill.

RYAN FITZPATRICK, COMMERCIAL MANAGER, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, provided a PowerPoint presentation titled "House Bill 194: Approve Marathon Petro Royalty Oil Sale," dated May 1, 2025 (copy on file). He began on slide 2 titled "What is "Royalty In-Kind":

Oil and gas leases issued by the State reserve a "royalty share" to the State - a portion of production that the State receives as owner of the resource. The State has the option to take its royalty oil and gas in-value (RIV) or in-kind (RIK).

- RIV: Lessees market the royalty oil or gas alongside their own production; the State receives the proceeds from the sale of its royalty oil, subject to fair market value
- RIK: Lessees provide royalty oil or gas of sales quality to the State; the State is responsible for marketing its royalty oil or gas.

Department of Natural Resources (DNR) has statutory processes for receiving royalty:

- Alaska Statute (AS) 38.05.182 requires DNR to make best interest findings for RIV and RIK determinations, and requires the commissioner report annually to the Legislature about these elections
- AS 38.05.183 guides DNR in the sales of RIK and requires that contracts meet a number of statutory criteria and, in certain cases, receive legislative approval before being entered into
- AS 38.06 establishes the Alaska Royalty Oil and Gas Development Advisory Board, which reviews royalty-in-kind actions by DNR

Mr. Fitzpatrick expounded that the state's royalty share ranged from 12.5 percent to approximately 16.7 percent. The state's share was free of production costs but paid transportation costs. The state had the option to take the royalty in two ways as described on the slide.

Mr. Fitzpatrick moved to slide 3 titled "Royalty - A Core Lease Term." That depicted a snapshot of royalty provisions and the agreement. He turned to slide 4 titled "Sources of North Slope Royalty," which showed an overview map of the North Slope. The shaded units were state oil and gas units where the state received its share of production in royalty-in-kind, which were almost exclusively derived from North Slope leases.

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Mr. Fitzpatrick turned to slide 5 titled "Royalty In-Kind Contract History:"

- The State has historically selected to receive royalty oil both in-kind and in-value
- About 97 percent of the State's royalty oil in-kind selections have been North Slope oil
- The amount of RIK oil that the State sells varies and depends on many factors:

- Alaska North Slope (ANS) oil production from state-owned lands
- Royalty rates for State oil and gas leases
- State's selection of the fields from which to choose RIK oil
- Quantity of crude oil sought by in-state refineries or other potential buyers
- Competitiveness of ANS royalty oil versus other sources of crude oil for in-state refineries or other potential buyers

Mr. Fitzpatrick explained that that the state had taken royalty in-kind since 1980. The slide portrayed a chart containing its historical contract history of in-kind (green) versus in-value royalties (black). He pointed out that the amount of in-kind royalty varied considerably over the years. He reported that historically the barrels were completely marketed, often out-of-state. Recent statutes required the department to support in-state refining creating a preference for in-state refineries or other in-state purchasers before it could be marketed out-of-state. He elaborated that part of DNR's process was to release a public notice on potential royalty sales to gauge market demand. Over the last decade, there were no firm out-of-state contracts for the purchase of royalty oil and over the last two decades the royalty oil was exclusively sold to in-state refiners.

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Mr. Fitzpatrick continued to discuss slide 6 titled "Royalty In-Kind Contract History:"

- Almost all the nearly one billion barrels sold to date have been sold via non-competitive sales
- Less than 5 percent has been sold via competitive sales
- The large majority of RIK oil sold to date has been to in-state entities, with a few historical cases where RIK oil was sold for export outside of Alaska

Mr. Fitzpatrick indicated that the slide also depicted the history of the different royalty in-kind contracts. He noted the several long-term contracts existed for many

years. He pointed to the recent Petro Star and Tesoro/Marathon contracts.

He briefly discussed slide 7 titled "Processes And Legislative Approval:"

RIK contract development and execution involves several significant steps:

- DNR commissioner follows a statutory process to negotiate a proposed sale; then DNR publishes a proposed finding describing the terms and reasons for the sale
- DNR must brief the Alaska Royalty Oil and Gas Development Advisory Board (AS 38.06) (Royalty Board) on the proposed sale and receive the Board's review and approval
- After receiving public comment on the proposed findings, DNR publishes a final best interest finding
- AS 38.06.055 requires authorization by the Legislature before a contract can be Executed

There are limited exceptions to this process, such contracts to relieve storage or market conditions with a duration of one year or less, and contracts for sales of 400 barrels per day or less. These exceptions do not apply to the Marathon contract now under consideration.

Mr. Fitzpatrick emphasized that before the contract was submitted to the legislature for approval, the proposed contract went through an extensive public process. He reported that DNR did not receive any public comment on this contract.

Representative Hannan cited the last sentence on the slide regarding the exceptions not applying to the current Marathon contract and asked for clarity. Mr. Fitzpatrick responded that the public process was for sales contracts such as the Marathon sale currently before the committee. He furthered that the department had separate statutory authority in certain contracts and was not required to be submitted to the legislature. The contracts went through public comment and published a best interest finding and

were usually for the short-term of one year or less and for contracts considered di minimus, subject to a limited number of barrels or mcf (one thousand cubic feet) of gas per day.

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Mr. Fitzpatrick examined slide 8 titled "Royalty Board Review:"

AS 38.06.050 requires the Alaska Royalty Oil and Gas Development Advisory Board:

- To provide a written recommendation of the board on the proposed sale, submitted to the Legislature at the time a bill approving the proposed sale is introduced, and
- To provide a report on the criteria used to evaluate the proposed sale.

Mr. Fitzpatrick indicated that the slide also depicted portions of the board's resolution and report to the legislature.

He turned to slide 9 titled "Royalty Board Review Criteria:"

Sec. 38.06.070. Criteria. (a) In the exercise of its powers under AS 38.06.040(a) and 38.06.050 the board shall consider

- (1) the revenue needs and projected fiscal condition of the state;
- (2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state or federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;
- (3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange, or other disposition of oil and gas or both;
- (4) the projected social impacts of the transaction;
- (5) the projected additional costs and responsibilities which could be

imposed upon the state and affected political subdivisions by development related to the transaction;

(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;

(7) the projected positive and negative environmental effects related to the transaction; and

(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

(b) When it is economically feasible and in the public interest, the board may recommend to the commissioner of natural resources, as a condition of the sale of oil or gas obtained by the state as royalty, that

(1) the oil or gas be refined or processed in the state;

(2) the purchaser be a refiner who supplies products to the Alaska market with price or supply benefits to state citizens; or

(3) the purchaser construct a processing or refining facility in the state.

The board shall make a full report to the legislature on each criterion specified in (a) or (b) of this section for any disposition of royalty oil or gas that requires legislative approval. The board's report shall be submitted for legislative review at the time a bill for legislative approval of a proposed disposition of royalty oil or gas is introduced in the legislature.

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Mr. Fitzpatrick reported that DNR worked extensively with the royalty board regarding the Marathon contract and passed a resolution in support of the contract. He discussed slide 10 titled "Recent RIK Contracts:" The chart portrayed several of the more recent contracts. The proposed Marathon contract showed a royalty volume range (nomination range) from 10,000 to 15,000 barrels per day, which could vary between the range. He disclosed that Marathon only negotiated a three-year contract in its prior contract. Currently, Marathon started with a primary term of 3 years with an option of 7 years of annual extensions. The options were exercised one year at a time. Either party

maintained the option to terminate the contract in three years or at the end of each subsequent year. In addition, if both parties were satisfied, they had the option to continue the contract.

Representative Hannan asked about the mutual consent contract extension. She asked who was responsible for agreeing to the extension concerning the state's interest. Mr. Fitzpatrick answered that the decision on renewals was undertaken by the department. Functionally, the decision was made by the commissioner, but the decisions were run through the Division of Oil and Gas and managed by the Commercial Section. Representative Hannan asked if the annual extension required a specific time period. She thought a one year extension seemed short. She wondered whether the state could initiate the request to extend. Mr. Fitzpatrick answered that there was a notice period prior to the end of each subsequent one year term and the agreement had to be made prior to the end of each term. He furthered that the requirement lasted 30 or 60 days and the decision had to be made before the contract lapsed. The department had a certain window when the producers had to be notified that the state was electing royalty in-kind and the stated needed certainty that the contract would be renewed prior to the nomination window, therefore the actual time-period to renew or lapse was several months before the end of the other time periods.

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Representative Galvin deduced that the chart showed all of the contracts that had been approved since 2016. Mr. Fitzpatrick replied affirmatively. Representative Galvin thought that the current Marathon contract was a standout due to the seven year optional potential. She wondered if there was any inherent reason for it to be designed so differently than other past contracts. Mr. Fitzpatrick answered that the chart depicted "adjustments to the contracts" versus brand new contracts. The extensions were a method to extend the contract on a basis both parties understood. He characterized it as a modification versus a wholesale change in terms. In addition, longer-term contracts were a positive thing for the state and important part of energy security.

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Representative Galvin believed that it appeared positive that the producers were looking to have a longer term commitment. She thought it locked in the number of barrels. She asked if there was any reason for the state to hesitate to lock in for a longer period of time. Mr. Crowther responded that the pricing term had also been adjusted slightly to lock in the premium but also float year to year with an adjustment rather than being fixed for the entire term of the contract. He indicated that prior contracts had a fixed model. The more flexible the contract with a guaranteed premium and option to extend worked in the state's favor. Representative Galvin deemed that it could be very helpful for the company to have a fixed price because it would know what its profits looked like in the future. She wanted to determine whether the state had done its best to capture the most revenue possible. Mr. Crowther answered that the contract did not expose the state to underpricing due to the contract's price terms associated with an index that changes with the market.

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Representative Galvin inquired whether the legislature had ever rejected a royalty in-kind contract and if so, why. Mr. Crowther replied in the negative. He believed that it was in part, due to the robust public process.

Mr. Fitzpatrick turned to slide 11 titled "Competitive Vs. Non-Competitive Sales:"

- AS 38.05.183 requires the sale of royalty oil be by competitive bid, unless determined that the best interest of the State does not require it, or no competition exists
- A non-competitive sale requires a written finding by DNR; for the Marathon contract, a Final Best Interest Finding was published on April 14, 2025
- How does DNR decide between a competitive and non-competitive sale? • DNR publishes a "Solicitation of Interest" letter with the goal of gauging the interest of the market
- In this letter, DNR establishes its preferred method of sale (i.e., competitive disposition) with non-binding parameters for such sale

- Interested parties are invited to comment on their willingness to buy RIK oil and their preferred terms
- DNR analyzes those responses and makes a written determination of the method of sale that is in the best interest of the State

When awarding a royalty sale the commissioner shall consider:

- The cash value offered;
- The projected effects of the sale, exchange, or other disposal on the economy of the state;
- The projected benefits of refining or processing the oil or gas in the state;
- The ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state; and
- The criteria listed in AS 38.06.070(a) There have been very limited competitive sales in the past:
 - Competitive sales of RIK oil only occurred in 1981, 1985, and 1986
 - Less than 5 percent of RIK oil (46 million barrels of approximately one billion overall barrels) sold to date has been via competitive sales

Mr. Fitzpatrick communicated that when DNR only dealt with a single purchaser it was viewed as potentially problematic from a competitive standpoint. The bidder lacked a competitive environment and lacked the incentive to bid over the minimum of the bid. The state would then engage in non-competitive sales and enter into direct negotiations with the producer to increase the premium the state received.

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Mr. Fitzpatrick addressed slide 12 titled "Royalty-in-Kind In-State Priority:"

DNR is statutorily directed to give a priority to in-state RIK sales:

Sec. 38.05.183. Sale of royalty.

d) Oil or gas taken in kind by the state as its royalty share, or gas delivered to the state under AS 43.55.014(b) may not be sold or otherwise disposed of for export from the state until the commissioner determines that the oil or gas is surplus to the present and projected intrastate domestic and industrial needs

Mr. Fitzpatrick reiterated that no out of state interest had resulted in an in-kind purchase in many years.

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Mr. Fitzpatrick moved to slide 13 titled "The Historical Premium for RIK Sales:"

- 11 Alaska Administrative Code 03.026(b) states that the RIK price should be at least equal to the RIV price
- From 2008 - 2023 the average RIK price was \$1.25/bbl. higher than that RIV price
- The State sold over 173 million barrels of royalty oil during this period
- RIK sales proceeds were \$12.99 billion
- The State made over \$188 million in revenue compared to taking the royalty barrels in-value

Mr. Fitzpatrick cited the slide's graph that depicted the premium of RIK price over RIV price for ANS royalty oil from January 2008 through November 2024. He pointed out that the zero dollar mark demarked the break even between the RIK and RIV sales. He indicated in almost every month the state managed to secure a premium for in-kind sales of over \$1 to \$3 relative to RIV sales excluding a few periods of market instability. The in-kind sales garnered additional revenue for the state.

Mr. Fitzpatrick turned to slide 14 titled "RIK Process Overview." He briefly reported that the slide contained a

flow chart of the Royalty In-Kind process, which he already discussed in detail.

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Mr. Fitzpatrick advanced to slide 15 titled "Recent RIK Contract Key Terms:"

Netback Pricing

DNR sells its royalty oil at the field or "wellhead" and bases the price on market sales price indices with various costs backed out. Thus, the price of royalty oil is calculated by "netting back" the price of ANS oil from the U.S. West Coast to the field.

RIK price =

- ANS price at the U.S. West Coast
- RIK Differential
- Pipeline transportation cost
- +/- Quality bank adjustment
- Line loss

Mr. Fitzpatrick explained that the chart was similar to slide 10 with the same contracts exemplified and related to Representative Galvin's questions regarding price terms and the potential for longer term contracts. He pointed to the far right hand column titled "RIK Differential." He explained that it showed the pricing term for the contracts. The RIK differential along with another "location differential contract" was an equivalent of the marine transportation costs when comparing the United States (US) west coast price using the market price indices for the sales and backed the price into the state of Alaska. The negotiated price did not have to match Alaska's actual marine cost and was less than the total marine cost. He revealed that there was a built in premium for sales that occurred in the state relative to West Coast sales. The chart portrayed the previous RIK differential was negotiated on a fixed dollar basis and was locked in at the prices shown on the chart. He noted that the price was a subtraction from what the state received from a barrel of oil. However, in the current year, instead of fixing a price, the department used DOR's location differential based on surveys of all of the oil sales contracts executed in the state over 12 months. The updates were published

each year that contained the location differential for the Alaska market. The state used the location differential for its reference value and negotiated a discount off the location differential to establish a premium, which was \$0.24 in the current year. It reduced the deduction against the state's value of oil in addition to the in-state premium. He expounded that because the state used a market value reference that was updated on an annual basis based on the market survey, it provided DNR the confidence to offer a potential longer term contract. He believed that it reduced the potential to diminish or eliminate the additional profit, and the model locked in the premium over the life of the contract.

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Mr. Fitzpatrick addressed slide 16 titled "Why RIK?" He explained that the graphics showed the value chain for a barrel of oil in ANS in-value royalty and ANS in-kind royalty. He pointed out that both started at \$80/bbl and detailed that the marine transportation allowance for in-value oil was \$3.50 while the RIK differential was \$2.25/bbl. There was a deduction on both of \$6.00 for other transportation costs and adjustments. The resulting price per barrel for RIK oil was \$71.75/bbl. and the RIV price was \$70.50/bbl. He noted that the prices were hypothetical.

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Mr. Fitzpatrick moved to slide 17 titled "RIK Pricing Formula:" The chart contained a formula representation of the RIK pricing calculation resulting in the Royalty In-Kind price explained in prior slides. He recounted that the department used the Reuters and Platts pricing agencies to determine the market indices for the west coast price. He noted that the tariff allowance was the actual transportation cost that also had two other components associated with it. The first was the Quality Bank adjustment that reflected the value of the field specific oil stream in Trans-Alaska Pipeline System (TAPS). The other was the Line Loss, which was the small variance in the metered volumes at Pump Station 1 and the Valdez Terminal. It was a small diminishment of a barrel when two crude streams were combined with different chemical conditions.

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Mr. Fitzpatrick highlighted slide 18 titled "Contract Terms For Marathon Using the DOR Location Differential."

Proposed RIK differential = DOR Location Differential minus 24 cents/bbl.

- Difference between marine deduction and RIK differential largely drives RIK premium over RIV
- New methodology allows for dynamic RIK differential deduction over contract term
- DNR estimates \$1.08/bbl. RIK premium
- This would result in approximately \$4.9 million incremental revenue per year of the contract over RIV if Marathon purchases an average of 12.5 thousand barrels of oil per day (mbopd).

Mr. Fitzpatrick elucidated that the graph depicted the marine deduction and the RIK differential from 2007 to 2024. The information conveyed how the new pricing term would have performed relative to the fixed price differentials. He pointed out that the two tracked relatively closely with slight differences depending on the year. The purpose of moving to the market index pricing formula was not attempting to gain an additional premium, which was built into its current contracts. The main reason for the new mechanism was to reduce uncertainty over the term of the contract and to lock in the premium. He characterized it as a risk mitigation measure.

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Mr. Fitzpatrick moved to slide 19 titled "Maximum Benefit to Alaskans:"

As required by AS 38.05.183(e), the Marathon RIK contract maximizes the benefits to the State:

- The sale results in royalty premiums to the State compared to the average RIV values
- Incremental increase in State revenue by \$4 to \$6 million per year
- In-state refining supports Alaskan jobs

- Marathon provides 220 full-time positions at its Nikiski refinery, over 60 contracted positions and 40 positions at Anchorage and North Pole terminals
- Producing refined products in Alaska reduces the costs to Alaskans
- Fuel security is economic security
- Marathon's Kenai refinery produces 55,000 barrels of refined product per day
- 30 percent is jet fuel supplied to Ted Stevens Anchorage International Airport - nearly half the airport's demand
- 27 percent is gasoline, which is consumed in state
- 43 percent is a combination of liquid petroleum gas, fuel oil, asphalt and other products

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

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Mr. Fitzpatrick reported that the published Department of Natural Resources zero fiscal note (FN1(DNR)) had no cost for the department. The revenue was indeterminate for three years due to the variability in the amount up to 15,000 bbl. per day. However, the department did estimate between \$4,000,000 and \$6,000,000 in additional revenue.

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Co-Chair Foster OPENED public testimony.

CASEY SULLIVAN, GOVERNMENT AND PUBLIC AFFAIRS MANAGER, MARATHON PETROLEUM, ANCHORAGE (via teleconference), supported the bill. He believed that the contract provided stability, availability, and flexibility for the Kenai refinery. He shared that the Kenai facility had been one of the longest operating refineries in the state, opening in 1969. The plant was capable of producing up to 69,000 barrels per day and was focused on value added products like propane, diesel, and asphalt. They distributed products statewide and employed many Alaskans. He relayed that Marathon was committed to reliably producing quality

fuels in Alaska for the long-term. He concluded that the contract would provide a positive shared value for all Alaskans and asked for members' support of HB 194.

Co-Chair Foster thanked Mr. Sullivan.

Co-Chair Foster CLOSED public testimony.

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Co-Chair Foster noted the bill did not seem controversial. He wondered if there was an interest in moving the bill.

Representative Galvin MOVED to REPORT HB 194 out of committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

HB 194 was REPORTED out of committee with eight "do pass" recommendations and with one previously published indeterminate fiscal note: FN1 (DNR).

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Co-Chair Foster reviewed the schedule for the following day.

ADJOURNMENT

[3:38:27 PM](#)

The meeting was adjourned at 3:38 p.m.