

Alaska Legislative Session Update  
by  
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The Legislative session has reached the 30-day point and the pace is picking up. Several Committees are meeting daily to hear testimony on Alaska's Oil tax structure. To date 152 bills have been introduced in the House and Senate. This number is slightly less than previous years as much of the focus remains on energy issues. Below is a brief session update report:

Several big issues face the legislature this session:

1. Oil tax reform
2. Budget (declining revenue picture)
3. Cook Inlet natural gas supply shortage

Budget Report:

- The Governor's FY 2014 budget is based on an average per barrel oil price of \$109.61 with a projected through put of 538,000 barrels per day. ANS oil is currently trading at \$111.12 per barrel. Under this scenario the state would have a surplus of \$500,000 million. The BIG unknown is the budget shortfall amount for the current year. Initial projections indicate a \$430 million revenue shortfall for FY 2013. This shortfall could force legislators to dip into the savings account to help funding their district priority capital projects.
- The Governor's Capital budget totals \$1.8 billion. This is far lower than the \$2.9 capital budget signed into law last spring. Several big energy projects are included in this capital budget, including the Susitna Hydro Dam project. Legislators are preparing their constituents for a lean capital budget bill this session.
- This week Governor Parnell released his supplemental budget request. This \$24 million budget bill is 75% lower than last years request.
- To help reduce the growing operating budget costs, Speaker Chenault recently introduced legislation that sets up a system of professional reviews designed to ferret out wasteful spending, mission creep, inefficiencies and programs that have outlived or outgrown their statutory purpose.

Education

- The Governor's budget request includes \$1.19 billion in forward funding for education, and \$25 million in a one-time appropriation to offset rising energy and transportation costs.
- \$37.5 million has been added to the school district's budget for deferred maintenance.
- The education (student) voucher issue is again up for consideration. Representative Wes Keller has proposed a Resolution that would amend the constitution to allow for school vouchers for education. If the Resolution passes the Legislature, this issue will be before voters in 2014 and will require a two-thirds vote for passage.

### Gas/Energy:

#### Cook Inlet gas supply

- One of the biggest areas of disagreement between the Administration and Legislature is the looming shortfall of gas supply in the Cook Inlet. The Administration believes that there are considerable volumes of gas in the Cook Inlet Basin. There seems to be a disconnect between the utilities and the state on this issue. Consulting groups on both sides agree this difference is likely a result of the different approaches taken to assess supply. DNR looks at theoretical gas but utilities can only count on proven gas reserves. Bottom line, unless new supplies come on line before 2014 the situation will likely become a crisis, leading to the importation of LNG.
- Enstar is running short on gas and will soon have to ask ML&P to fire up the diesel backup generation system. Diesel generation costs \$300 to \$400 per megawatt, about 10 times the price of power generated with gas.

#### In-state gas line

- HB 4, sponsored by Rep. Chenault and Rep. Hawker, grants the Alaska Gasline Development Corporation (AGDC) the ability to negotiate contracts under an umbrella of confidentiality, and to advance to the construction of an in-state gas line from the North Slope without the Legislature's approval. A real challenge in passing HB 4 is that former Governor Sarah Palin's gas line plan, AGIA, is still possibly moving forward, deterring North Slope producers from looking seriously at other options, and limiting the amount of gas that could be shipped through any other Alaska line. Another challenge for HB 4 is the need for \$400 million in seed money to get the project to an open season, but if it generates enough gas commitments to make the project viable, the cost of the project will be around \$7 billion, which is intended to come from the private sector in the form of bonds sold by AGDC.

### Oil tax reform

- Parnell has proposed legislation (SB 21 and HB 72) to help encourage more corporate investment, and ultimately stem declining oil production. The legislation reduces state oil taxes by \$5.5 billion over the five fiscal years from FY 2014 to FY 2019 by eliminating the progressivity provisions in the ACES (Alaska's Clear and Equitable Share) oil and gas production tax. This tax reduction will hopefully provide the incentives needed to attract new production. One area of concern for oil industry officials is the reductions to the petroleum exploration and development subsidies now available to oil companies in the form of investment credits. Committee hearings on this issue in both the House and Senate are likely to consume most of the 90-day session.

### Medicaid:

The biggest health care issue facing the state is a pending decision by the Governor on Medicaid expansion. Commissioner of Health and Social Services, William Streur, is finalizing a report to present to Governor Parnell in the upcoming weeks. To date, 11 states have rejected Medicaid expansion, 21 states have agreed to expand Medicaid, and the remaining states are still undecided. This decision involves both cost and philosophical policy.

- Expansion of Medicaid health services in AK would add 4,000 jobs by 2017 and 4,600 by 2019, with \$230 million in new annual payroll by 2019.
- New federal health care law allowing Medicaid to cover the "working poor" would provide health coverage to an estimated 34,760 Alaskans who do not have it now. Over 90 percent of these added costs would be paid for by Federal government
- Department of Administration and Department of Health and Social Services are considering cost-containment options such as providing a less expensive, optional health care. For example, "Plan B" for state retirees, which sends employees and retirees to designated, out-of-state "centers of excellence" for certain procedures in order to avoid the higher cost of care in Alaska.

### Cruise Ship Wastewater Bills

- The Governor's cruise ship wastewater discharge bill, HB 80/SB 29, passed the House this week. HB 80 removes the requirement established by a 2006 citizens' ballot initiative requiring that cruise ship wastewater meet state quality standards "at the point of discharge" (before wastewater leaves the ship). After almost two years of extensive review, the Science Advisory Panel (created by the Legislature in 2009 to study feasible methods of cruise ship pollution prevention) found no treatment technology currently exists to meet the stringent requirements of the Citizens' initiative. HB 80 disbands the Science Panel.

This report outlines the session's focus during the first 30 days. This focus will change significantly in the next 60 days as issues such as Capital Budget spending are addressed. We will keep you posted.

If you have any questions please feel free to call our office at 907-586-2565. You can reach me on my cell at 907-230-4308

Regards

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