

Legislative Consultants in Alaska (LCIA)

LEGISLATIVE OVERVIEW

The first 60 days

Today is the 57st day of the legislative session. With the session more than half over the pace is increasing. Energy, oil taxes, budget reductions and school choice are the issues receiving much of the focus this session. The Governor's oil tax bill, the in state gas line, and the Susitna Hydro project seem to be crossing paths in both the Resources and Finance committees as members listen to hours of testimony on each subject.

A total of 224 bills have been introduced to date: 154 in the House, and 70 in the Senate. Four of these bills have passed through both the House and the Senate, 3 of which were introduced on the House side, and 1 that had been introduced on the Senate side.

Below is a brief update of the current state of bills and key issues pervading the legislature as we dive into our second half of session.

The Budget

The Legislature is working with the Governor's budget request under the information that the state is facing a budget deficit of \$323 million this fiscal year. This is in part attributable to oil prices being lower than expected, and lawmakers are working to trim spending in order to address this deficit facing Alaskans. New revenue estimates are expected to be released in the next week. Some analysts expect the deficit to increase at this point. Capital budget spending is likely to be significantly lower than in previous years. Some legislators believe the state cannot afford to add more than \$260 million to the Governor's proposed capital budget bill. At this level, very few community projects will be funded, as individual legislators' allocations will be around \$1 million per senate district. The capital budget spending decision will be made in the next few weeks.

- The House Finance Committee released the \$9.7 billion operating budget for Alaska on Monday, March 4, 2013. This budget proposal is 2% less than the operating budget initially proposed by Governor Parnell.
 - In the budget released, \$8.4 million was reduced for behavioral health programs. According to Representative Mark Neuman, R-Big Lake, \$9 million was put toward behavioral health programs for this year, and \$8.4 million remained unspent, and was thus removed from next year's budget.
 - The House is likely to vote on the operating budget by the end of this week. It will go to the Senate for consideration where some of the House reductions are likely to be added back in areas like behavioral health.

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- HB 30, a bill sponsored by Speaker of the House Mike Chenault, subjects state agencies to perform internal reviews. One provision of the bill would require agencies to identify potential cuts equaling 10 percent of their budgets, starting with programs unessential to the agency's mission or that do not serve a current need. It was referred to the House Finance Committee, which offered a Committee Substitute bill that passed the House floor last week. CSHB 30 awaits its hearing in the Senate Finance Committee.

Oil and Gas

- **SB 21**, the Governor's oil and gas production tax bill, passed out of the Senate Resources Committee on Wednesday, February 27. The bill was amended to bump the base tax rate from 25 percent to 35 percent, as well as give oil producers a \$5 per barrel credit for oil produced from new areas in order to offset the increased tax rate. Ultimately, these amendments will save the oil companies close to \$900 million, which is roughly the same as what Governor Parnell's original plan called for. SB 21 is currently being heard in Senate Finance and will likely be on the Senate floor for a vote within the next 10 days.
- **HB 4**, a bill sponsored by Speaker Mike Chenault and Representative Mike Hawker, clarifies regulatory issues for the in state gas line. The sponsors insist these regulatory changes are required to provide confidentiality for proprietary information and allow the AGDC to operate in a very competitive environment without being hampered by state government requirements. Governor Sean Parnell wants AGDC to be covered by the Executive Budget Act, which would allow it to act more like a state agency. Parnell recognizes the need to change the current structure of the agency, but fears that creating a state pipeline agency that is too independent could create problems for the state. Together, the governor and legislators are working to change HB 4 in a way that will ease these concerns.

Another big concern is the financing needed for the project. The sponsors insist that the \$7 billion estimated cost of the line is to come from the private sector. To secure the loans and bonding required to build a project of that magnitude, lenders and investors are likely to require as much as 25 percent equity up front from the corporation. That means long-term shipping commitments from entities pledging gas to the line. These entities know they have to put so much cash up front for that equity component. If the line isn't fully subscribed, some legislator's worry the state would be pressed to subsidize the project to keep tariffs, and the price of gas to consumers low, and to avoid the embarrassment of writing off the millions already sunk into the project. The sponsors are confident this will not happen.

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Committee Substitute HB 4 was heard and moved out of the House Resources Committee on Monday, March 4 and is waiting to be heard in the House Finance Committee.

Susitna Dam hydro project. The [Alaska Energy Authority](#) efforts to build a 735-foot, \$5.2 billion structure on the Susitna River remain on track. The dam, designed to generate up to 600 megawatts of electricity, would create a new power supply for more than two-thirds of the state's population. Some legislators question the need for both a gas line and a large hydro project. Supporters of both projects point out that Susitna hydro project will help relieve much of South-central Alaska's electricity burden but homes, residences, businesses are not heated by electricity; they are heated by gas. Supporters believe there is enough demand for both projects in Alaska.

On Feb. 5 the Energy Authority, or AEA, announced the Federal Energy Regulatory Commission approved 44 study plans. AEA's complete Revised Study Plan included 58 studies and was submitted on Dec. 14. Determination on the remaining 14 studies will be announced April 1, 2013 if the entire Revised Study Plan is approved by April 1, AEA hopes to complete its FERC license application by the end of 2015. The timeline for the estimated \$5.2 billion dam on the Susitna River has construction beginning in 2017 and the dam generating power in 2024.

Healthcare

- Governor Parnell was quoted as stating that he does not intend to expand Medicaid in the state as of now, but is not opposed to looking at the option in the future. According to the Governor's press staff and Commissioner Bill Streur the Governor's comments were taken out of context. The Governor stated he would not be making a decision on Medicaid expansion at this time.
 - Two independent studies conducted show that the expansion would offer 40,000 Alaskans healthcare as well as pump \$1 billion into the economy. The federal government would cover 100 percent of the cost for the first 3 years and gradually transition to 90 percent by 2020.

Education

- Much debate has occurred over SJR 9 being pulled from the Senate Education Committee. SJR 9 is a measure that proposes amendments to the Alaska State Constitution allowing state funded education vouchers to be used by parents to send their children to either a public OR private school. The Senate President, Senator Charlie Huggins, initially assigned SJR 9 to be heard in the Education Committee, but removed that referral after realizing that it was an issue that

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directly affects the Alaska Constitution. He thus assigned it to be heard in the Senate Judiciary Committee. After caucusing, the Senate agreed with the Senate President's decision. SJR 9 is scheduled to be heard in Senate Judiciary Committee March 13 and 15th. The bill will move to the Senate Finance Committee after Judiciary.

Energy

- Due to insufficient local gas supply, ConocoPhillips may stop exporting liquefied natural gas from the only gas export terminal in Alaska. Their export license expires March 31, 2013, and they will only renew it if there is enough gas to export after meeting local LNG demand. ConocoPhillips is currently unaware of available LNG for export, however should they become aware of gas that is available, they may decide to submit an application to the federal government to extend their export LNG license. However, this is likely to be more difficult given the energy issues in Alaska and the US.
- SB 32, a bill allowing for studies to be conducted on Chikuminuk Lake to test the feasibility of a hydroelectric power plant, was passed out of the Senate Community and Regional Affairs committee, and is waiting to be heard in the Senate Finance Committee. A house companion bill, HB 137 has been introduced by Representative Millett. It was referred to the House Resources and House Finance Committees, and is waiting to be heard in Resources.

Local Municipal Issues

- Rep. Steve Thompson recently introduced HB 152 - PERS Termination cost studies. Initially the bill raised concerns from many union leaders who questioned the real intent of the legislation. After discussions with the Alaska Municipal League and local municipalities, most of these fears have been alleviated. HB 152 attempts to correct a problem that arose after passage of SB 125 in 2008. During the debate on SB 125, many legislators expressed concerns that participants may "game" the system by removing employees from PERS and contracting out for these same services. To address this concern, the legislation included mandatory termination cost studies for any entity removing an employee class from the PERS system. System-wide salaries (DB + DC) have increased by \$325 million, or 18.6%, over the salary base "floor" established in SB 125. As a result, contributions toward the unfunded liability have NOT been compromised or reduced; rather, they have INCREASED at a rate greater than the actuarial-assumed annual growth rate of 4%. Rep. Steve Thompson believes this legislation is needed to allow municipalities to effectively manage their positions and employees without the fear of termination costs. The one big unknown is how legislators will receive the \$80-100 million fiscal note.

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- The Alaska Conference of Mayors has asked the governor and Legislature for \$25 million in supplementary municipal revenue in addition to the \$60 million a year they receive in general revenue sharing due to high fuel costs heavily impacting the local government budgets. This budget increment will likely be considered in the final days of session as urban and rural legislators come together on an adjournment package.

Communications

- Legislators discussed pulling the plug on state support for the Alaska Land Mobile Radio (ALMR) network, a joint state-federal-local government communications system. If this system were shut down, most radio communication capability would be virtually lost, with the exception of short-range radio-to-radio communications. Last year, the Legislature approved a \$1.5 million boost in general funds to fill the loss of federal support for ALMR. In terms of a replacement, Department of Administration Deputy Commissioner Mike Barnhill states: "They would have to revert to walkie-talkies and cell phones, whatever is available...The ALMR system is still considered the best and lowest cost system for the state of Alaska."