

Alaska Legislature Weekly Report

Week of January 23, 2012

Budget

David Teal, who directs the Legislative Finance Division, said last week that the state is awash in surplus cash - \$15 billion in savings and \$3.7 billion in surplus revenue projected for this fiscal year and the next. This projected surplus is nine times more than it was in April.

Governor Parnell's budget request asks for a total of \$12.1 billion for operating and capital spending in FY 13. His capital request of \$1.8 billion is almost \$1 billion lower than the capital budget for the current year. However, lawmakers have not yet added their own priority projects to the capital budget and there are many gaps that still need to be filled. Legislative Finance Director, David Teal, says that the governor has budgeted certain areas much lower than they should be such as Medicaid, fuel costs, education, and the judicial retirement system. Because of the growth in spending, the state is more dependent than ever on higher oil prices so that the budget can stay balanced. The price needed for the governor's FY 13 plan to break even is \$97 per barrel.

Of the governor's \$11 million in requested general fund increases, \$9 million is for the Oil, Gas, and Mining section. His FY 13 request includes \$3 million for gas pipeline related work as "one-time" funding and puts the other \$6 million in the base budget. Of all the agencies included in the governor's request, the Department of Education and Early Development received one of the smallest adjustments. The FY 13 request is less than 1% over the adjusted base in both state general fund and total dollars.

The governor proposed a \$350 million bond package for ports, \$200 million being for the Port of Anchorage. During discussion of this portion, Representative Reggie Joule brought up the need for a Coast Guard port in northern or western Alaska.

The Legislative Research Services estimates that Alaska capital spending between FY 07 and FY 12 created 15,000 to 20,000 jobs per year.

Energy

One of the bigger issues during this legislative session will center on energy. Representative Bryce Edgmon has proposed House Bill 294 which would help Alaskans living in rural areas pay for the high cost of electricity. He expects the bill to open a discussion on rural energy costs and the Power Cost Equalization program (PCE). Price of electricity can be three to five times higher in rural Alaska than in the more urban areas. People in Western and Northern Alaska spend about 60% of their disposable income on energy while people in places like Anchorage spend less than 10%. PCE helps rural customers by paying some of their electricity costs. Building a natural gas line is a major priority in the House. The Senate is supportive of the gas line, but hope for a more immediate action to solve the rural energy issues.

Oil & Gas

The most important issue this legislative session is coming to an agreement on oil tax legislation. A plan for oil tax legislation in the State Senate was unveiled during a press availability with the majority bi-partisan caucus Thursday. Senate President Gary Stevens says his goal is to have the bill to his Resources Committee in a week and a half. From there it's to Senate Finance, the Senate floor and then over to the House. Stevens says he's told Speaker Chenault his goal is to move the Senate version to the lower body with at least 30 days left in the session. Caucus members were hesitant to disclose provisions of the measure at this point, but Finance Committee Co-Chair Bert Stedman said they are probably closer than what a lot of people might think. Concerns include the progressive surcharge now triggered when a company's net profits hit \$30 a barrel, tax credits and addressing heavy oil. During the press conference, Senate Majority stated that one of the key things left to debate is how to split profits made from North Slope oil and its effect at different oil prices.

The House approved the Governor's oil tax bill last session. It's been lodged in the Senate Labor and Commerce Committee since then. According to Senate President Gary Stevens, the Governor's oil tax cut plan will not be the vehicle for oil tax reform this session. He expects the bill to be heard by the Resources Committee in about two weeks and he wants the bill to be in front of House members for review around March 15. He is confident that the oil tax bill will be able to satisfy everyone.

The Governor stated he is willing consider other serious proposals that will help the state reach its goal of increasing oil production to one million barrels a day over the next ten years. The Senate claims that their approach is actually much closer to the Governor's than it seems, the most important similarity being the promise of bringing more oil industry jobs to Alaskans. A report last year revealed that oil jobs were being shipped out of Alaska, but that is actually not true. According to a report by the McDowell Group, oil industry jobs hit an all-time high of about 13,000 in 2011, two-thirds of which are on the North Slope. The industry has added about 5000 jobs since 2004. However, a concern is that many of these workers are non-residents. The

McDowell Group reported that about 30% of oil industry workers in Alaska are non-residents. On the North Slope the percentage of non-resident workers was about 35% in 2009. In general, the more-skilled job classes are the ones that tend to have higher rates of non-resident workers. DOR predicts a 2.8% annual compounded annual production decline rate through the next ten years. ExxonMobil says they will maintain an annual North Slope oil production decline of 6 to 7 percent. BP Exploration also says that they guarantee an annual decline of 6 to 8 percent. Since 2007, oil companies are required to annually disclose their capital and operating spending in the state. If Alaska North Slope wellhead oil values were to fall it would be a perilous time for Alaska and companies invested in, or dependent on, Alaska oil. However, the DOR forecast doesn't suggest that the wellhead prices will sink this low.

According to DOR, oil industry profits rose from \$5.5 billion in FY 09 to \$6.2 billion in FY 11 and they predict profits to be around \$6.6 billion in FY 13. With Alaska's collections from the oil industry, the state will reach \$9.2 billion this fiscal year, which is 40% more than the industry's before-tax profit. This is good news for the state, but not as much for Governor Parnell's oil tax rollback plan, HB 110 that is still waiting for action in the Senate. This bill would lighten the progressivity provisions of the state's current petroleum production tax. The current tax increases the state's share of revenue at higher oil prices. With HB 110, higher oil prices that are predicted mean a larger loss to the state treasury.

On Tuesday (Jan. 24), a bill was introduced by Speaker Mike Chenault that would help state-owned Alaska Gas Development Corp. become an investor and partner in a gas pipeline built by North Slope producers. The bill would also allow the AGDC to buy and sell natural gas and buy capacity in a gas pipeline. They would also be exempt from regulation by the Regulatory Commission and from state and local property taxes during construction. Right now, the AGDC is planning a 24-inch pipeline to be built from the North Slope to Southcentral Alaska. Last year the legislature appropriated \$200 million for this project.

On January 5, the governor met with CEOs of BP, ConocoPhillips, and ExxonMobil in Anchorage. He wants the companies to work together to create a large liquefied natural gas project instead of a project involving an all-land pipeline to Alberta that TransCanada Corp. and ExxonMobil are currently pursuing. Governor Parnell asked the companies to reach an "alignment" by March 31 and to have a plan to combine efforts with the state's own gas project by June 30. Alaska will be prepared to move ahead with the project even if the three companies don't reach an agreement.

In an editorial piece Speaker Chenault and Representative Mike Hawker stated that the governor's plan involving natural gas has two important goals: "Alaska gas for Alaskans and commercialization of a resource to generate multi-decade economic benefit."

Gazprom, a natural gas exporter in Russia, is testing an Arctic Sea route to Asia. Russia is developing the transportation corridor as it plans to produce and ship liquefied natural gas (LNG) to markets beyond the reach of Gazprom's pipeline network. Novatek says that the Arctic route is faster and more profitable than shipping via the Suez Canal.

The price of natural gas fell to 10-year lows last week, but Royal Dutch Shell CEO Peter Voser says demand for gas will be much higher than oil in the long run. The market for natural gas has started to dry out so there is a need for new projects to come on. Low demand and high inventory levels in the United States have deterred some companies from future investments, but America's low demand doesn't reflect on what's happening in the rest of the world.

Education

In the education portion of the governor's budget plan, the things that are emphasized are full funding and forward-funding for K-12 education and pupil transportation, Alaska Performance Scholarships, and requests for two new rural schools and 14 projects on the Department of Education and Early Development's major maintenance list. One of the concerns with this plan is the two years of flat funding for K-12 education. In Governor Parnell's FY 13 proposal the budget for the Department of Education is growing at a rate of 0.4%, the lowest of all the state agencies. In Governor Parnell's proposal the base student allocation remains unchanged at \$5680 per student. His proposal will provide districts with less money in FY 13 than the current year. The Department of Education's proposed budget for FY 13 falls into two categories: 95% goes to districts as grants, primarily through the K-12 foundation formula. The remaining 5% is for agency operations. Particular requests for spending increases include:

- Alaska Performance Scholarship (\$2 million above the current year's \$6 million)
 - In its first year the scholarship met the administration's goal of having 30% of graduates qualify in its first year.
 - In FY 13 the agency hopes to award 2,340 scholarships that will average about \$3400 per award.
 - The governor is seeking an additional \$2 million for the program and is pushing legislation that would create a separate endowment-type fund to pay for these scholarships.
- Provision of online Advanced Placement courses to help students qualify for performance scholarship (\$1.2 million to replace expiring federal monies)
 - These courses make the before mentioned scholarship more accessible to students. Nineteen courses are available right now with students in 16 school districts taking them. The department is requesting the \$1.2 million to replace expiring federal funds. Representative Thomas pointed out that federal stimulus money can't be replaced with general funds.
- Contractual increases for aligning state assessments with content standards and continuous test item development (\$750,000)
- Pre-kindergarten education (repeat of last year's \$1 million in the base and \$700,000 in "one-time" dollars)
 - In FY 12 the legislature appropriated \$1 million in the base budget plus \$700,000 in one-time funding and \$300,000 target at four underperforming districts where courts ordered the state must intervene. In FY 13 the department is requesting a repeat of the \$700,000 in one-time monies in addition to the \$1 million base.
 - 78% of students in the pre-kindergarten program experienced greater than one year's growth during one year.
- State system of content coaches (\$400,000)
- Statewide literacy program (\$300,000)

A bill involving state-sponsored scholarships is being considered this week. The bill would allow students to use these state scholarships to attend private or religious schools. Last year the Alaska Federation of Natives endorsed the proposed legislation that would give Native parents choices in choosing schools that best meet their children's needs. Governor Parnell and Education Commissioner, Michael Hanley, both support the concept of choice, but neither has taken a public position on the bill.

The Alaska Constitution states that public money can only be used for a public purpose. Representative Wes Keller is proposing an amendment that wouldn't prevent students from receiving public funds for any educational benefit. Representative Keller expects debate, but his belief is that providing money for a child to attend a religious school isn't an establishment of religion.

This bill (HB 145) was discussed in the House's Education Committee this week. Some concerns with this bill are:

- In addition to paying tuition, the bill calls for the state to pay for student transportation costs. Private school transportation costs will be much more than public.
- The bill would allow for private schools to be exempt from the state's required minimum number of students for a recognized school. The current minimum for state funding is ten.
- The public school system in Alaska serves about 90% of Alaskan students.
 - Many districts are struggling with budget currently and having to cut programs and lay off teachers.

The Senate Education Committee passed a bill on Monday (January 23) that requires youth suicide awareness and prevention training for teachers, administrators, counselors, and specialists who work with students in grades 7 through 12 throughout the state. Sponsored by Senator Bettye Davis, Senate Bill 137, also known as the Jason Flatt Act, is similar to legislation passed by five other states.

The "Moore vs. State" case has been settled. In 2004 a group called Citizens for the Educational Advancement for Alaska's Children (CEAAC) brought on the lawsuit because it felt that the state wasn't providing enough educational instruction in rural schools for the students to pass the required graduation exams. The settlement still must be approved by a judge as well as the legislature.

The settlement requires the State of Alaska to provide \$18 million over the next three years to the 40 lowest-performing schools in the state who will need to apply to receive money. Most of the 40 schools are in the Yupiit, Lower Kuskokwim, Lower Yukon, Yukon Flats, or Northwest Artic school districts and range in size from a few dozen to a few hundred. All together there are about 4500 students in these schools equaling to about 3.5% of all the state's K-12 students. The settlement states that \$12 million will go toward teacher retention and efforts to help students pass the high school exit exam. The other \$6 million will go toward two-year kindergarten programs as well as literacy programs for the pre-kindergarten children. Recipients of the money

would have to create benchmarks for progress, but they will also have the opportunity to shape their programs to fit cultural needs.

Project approval will be overseen by a seven-member committee with three members picked by the Department of Education, three members picked by CEAAC, and a seventh member picked by both.

This is the second major education settlement under the administration of Governor Parnell. Last year the state settled a lawsuit that alleged inequities in funding for rural public schools. The terms of the settlement called for the Governor to seek legislative approval for funding five school construction projects in rural Alaska. An estimation of the total cost of these projects is almost \$146 million. In his budget proposal the Governor has requested more than \$60 million for new schools in Emmonak and Koliganek.

Legislation

HB 255 was moved through the House Transportation Committee on Thursday (Jan. 26). The intent of this bill is to correct the language of a 2008 law that attempted to ban texting while driving. A training judge in Fairbanks deemed the ban too vague and a magistrate in Kenai said the legislature should explicitly ban texting if that is the intent. The current law refers to driving with a “screen device operating,” but never specifically mentions texting. The bill has been referred to the Judiciary Committee where the chairman, Representative Carl Gatto, will decide when to schedule a hearing.

A joint hearing with the House and Senate Judiciary Committees is planned to hear a proposed initiative that would revive Alaska’s coastal management program. This program allows states to put conditions on certain activities on federal lands and waters. A date for this hearing is scheduled for February 6. Expected to testify are Juneau Mayor Bruce Botelho who leads the board of the Alaska Sea Party and Susan Bell, commissioner of the Department of Commerce, Community & Economic Development.

During last year’s second special session, the Senate passed legislation aimed at saving the program, but the bill failed in the House. Senate President Gary Stevens says if legislation is proposed to revive the coastal management program, it should come from the House.

Roads

Alaska may be in the midst of a new road building period. Plans are to finance these roads under a private/public partnership. Other proposed roads may need state-federal money or state General Fund appropriations. In Governor Parnell’s budget plan there is a request for \$28.5 million for “roads to resources.” This includes \$10 million for the road to Umiat and \$4 million for the road to the Ambler Mining District.

Crime

The Crime Summit, sponsored by the Senate Judiciary Committee took place this week. Some things that came up were:

- There were more than 162,000 cases filed in the system during the last fiscal year.
 - Half of these are minor offenses, ¼ civil, and ¼ criminal.
- There were 6400 felony cases filed last year.
 - In almost ¾ of these cases, the defendant entered a guilty plea before going to trial.
 - Prosecutors dismiss nearly a quarter of the cases before going to trial.
 - Less than 5% go to felony trial and of those about 2% are found guilty after trial.
- There has been about a 10% increase in felony filings over the past five years.
- The biggest challenge that needs to be addressed is focusing more on reducing crime itself than the punishment that follows.
- Third-party custodian system is flawed and needs reform.
 - Alaska Pretrial Services is a non-profit that monitors people with ankle bracelets.
- The importance of early childhood education when it comes to crime prevention.
 - There is evidence that shows early childhood education has reduced crime rates by 20%.
- The Alaska prison population is estimated to exceed prison capacity in 2015 while costs continually rise.