<u>End of session report by</u>
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Legislators hoped to adjourn early and be home for Easter, however several contentious issues caused everyone to remain in Juneau for five additional days. Several complex issues were addressed this session. Below is a brief overview:

<u>The Budget</u>

In December, 2013 the Dept. of Revenue announced the state would take in $2 billion less in revenue for <u>FY 2014</u> (current year) than originally estimated. This shortfall required the state to draw $1.9 billion from its' savings accounts to balance the **<u>current year's budget (thru June 30, 2014)</u>**. Legislators took a conservative approach to spending for FY 2015 passing a "slightly reduced status quo" operating budget for the upcoming year. The Legislature approved a leaner FY 2015 capital budget that focuses on finishing the MEGA projects.

Major projects funded in the capital budget include:

- $37.5 for completion of the Alaska State Library and Museum (SLAM)
- $45.6 to UAA to finish the Engineering building.
- $90 million for state facilities deferred maintenance
- $245 million in grants and bond proceeds to replace the UAF power plant. The University will receive $87.5 in state funds and be required to issue $157.5 in bonds to round out the financing package. intent language was added to this appropriation directing the University to implement a utility surcharge and increase tuition in an amount not to exceed $2 million per year
- $7 million to complete the Blood Bank facility.
- $11 million to the MSB for rail extension to Point MacKenzie
- $11.8 million for St. Mary's High School gym
- $15 million Alaska Railroad positive track control
- $20 million renewable Energy Fund
- $15 million AHFC Energy Rebate Program
- $25 million AHFC Weatherization program
- $30 million Village Safe water grants.
- $20 million to Susitna/Wantana Hydro project

<u>Education</u>

After hours of public testimony and committee hearings the Legislature reached consensus on an amended version of the Governor's Education package. The consensus includes:

1. $150 million in FY 2015, $50 million for FY-16, and $50 million in FY-17.
2. One time money totaling $43 million in FY-15, in FY-16 $34 million, and $20 million in FY-17.
3. The high school exit exam was repealed and replaced with a requirement to take either the ACT, SAT or WorkKeys prior to graduation.
4. Allows course credit without "seat time". Limits testing out to core topics.

5. Provides an appeal process for Charter School applicants denied by a local school board.
6. Start up charter schools may receive a one-time grant of $500 per student to help with initial education costs.
7. Increases funding for correspondence students from the current 80 percent to 90 percent.
8. Changes the school construction bond debt reimbursement rate from 60/40 to 50/50.
9. Expands taxes credits for contributions to both public and private schools.

Gas pipeline

Shortly before the legislative session began, the Parnell administration signed a Heads of Agreement (HOA) with TransCanada, the Alaska Gasline Development Corporation, Exxon Mobil, BP, and ConocoPhillips. This document defined the handshake agreements and laid out a path for the Alaska LNG Project. A condition of that HOA was "enabling legislation" that would make certain legal changes required for the project to proceed.

The plan calls for the State of Alaska to assume 20-25 percent ownership of the project through its tax and royalty share of the gas. The project is estimated to cost between $45 and $65 billion.

The state has signed a Memorandum of Understanding with TransCanada to be the state's partner and in return receive a part of the project ownership of the gas treatment plant and pipeline. This MOU is conditional upon the partner's approval of the enabling legislation.

Senate Bill 138 accomplishes several things: First, it makes some changes to AGDC statutes to allow the state corporation to become involved in the project -- currently they are limited to an in-state gas pipeline project only -- not an LNG project requiring liquefaction. Second, it allows DNR to renegotiate royalty contracts to allow the state to take large quantities of gas as payment for those royalties. It also allows DOR to take gas in kind as payment for production taxes. The tax rate on gas is set at 13 percent of the gross amount of gas produced at the wellhead. This combined with the average royalty rate makes up the state's roughly 25 percent share. These changes in the law will allow the project to move into the next phase, called Pre-Front End Engineering and Design.

Public Employee/Teachers Retirement System Unfunded Liability

In January, 2014 Governor Parnell submitted legislation to transfer $3 billion dollars from the Constitutional Budget Reserve to the unfunded retirement system for teachers and public employees to pay down part of the $12 billion fund liability. The Legislature approved the $3 billion transfer allocating $2 billion to the Teachers Retirement System (TRS) and $1 billion to the Public Employees Retirement System (PERS). This cash infusion means TRS, currently funded at 53 percent would now be 73.3 percent funded. A level of 80 percent is considered to be adequate.

The local contribution for municipalities, local government entities and school districts remain the same. 22 percent of local government employees and 12.56 for school district employees.

Increasing the Alaska Minimum wage

The House leadership introduced minimum wage legislation and quickly moved it to the House floor for a vote. The bill passed by a narrow margin 21 yeas-19 nays.

The bill remained in the Senate Finance Committee upon adjournment. This issue will now appear before the voters in the November primary election.

Knik Arm Bridge Crossing

The final days of the session included a surprise disagreement over funding for the Knik Arm Bridge Crossing. A six-member conference committee, Chaired by retiring Representative Alan Austerman was appointed to work out the differences. The following is a brief outline of the changes made by the conference committee:

1. Shifts all project management – bonding, permitting and right of way acquisition from the Knik Arm Toll Authority to the Dept. Of Transportation and Public Facilities. KABATA would operate the bridge once it is built but toll charges would be set by DOT/PF.
2. Sets a Toll Bridge Revenue limit not to exceed $300,000,000
3. Authorizes the state to issue toll bridge revenue bonds. Requires the proceeds of the sale to be deposited in the Knik Arm Construction fund.
4. Requires notice to the legislature before issuance of bonds.
5. Prevents the state from issuing bonds until the Federal Highway administration has approved a loan to the state for at least 30 percent of the total project cost.
6. Removes all indirect moral obligation language behind the proposed TIFIA loan. Now toll and non-state revenues stand behind the TIFIA loan.
7. The total project cost is estimated at $900 million. Funding will be $300 million TIFIA loans, $300 million in Federal Highway Receipts and $300 million in state issued bonds to be repaid over 20 years up to $25 million a year.

The legislature also passed a state capital budget with $55 million for the project, $5 million new money from the state to match $50 million of expected federal funds. The Alaska DOT/PF is likely to use some of these funds in the coming year to contract with a design firm to take the current 35 % design to a 65% designed project. This design level will help provide a more refined cost estimate for the project.