

With almost a third of the session behind us the major legislative issues remain the same;

- The budget deficit
- Gas Pipeline
- Education reform

Our February 3, 2014 report outlined these issues in detail. The following is an update on these and other issues.

The Budget

House Finance subcommittees are working through the Governor's proposed FY 2015 operating budget. One thing is clear, it will be very difficult to add money to any department's operating budget this session. Even small increments of less than \$100,000 are being frowned upon. The House is scheduled to close out their operating budget by March 14, 2015 with subcommittees closing out by the end of February.

Capital budget dollars for projects: Bonding

On Friday, Senate Finance members listened to a lengthy overview by the Alaska State Bond Bank. According to Bond Bank Director Devon Mitchell the state will have \$1.142 billion in General Obligation Bond indebtedness by the end of 2015. This amount does not include debt incurred by entities such as the Alaska Student Loan Corporation, AIDEA and local municipalities. While the state has no legal obligation to repay these bonds, there is a "silent moral obligation" attached to this debt.

The State of Alaska currently has 5 percent of the state's unrestricted revenue allocated toward bond repayments. According to Wall Street finance experts obligations above 8 percent make state bonds far less attractive in the marketplace. Given the current credit rating the state has about \$1 billion to \$1.5 billion in capacity before reaching this level. However, several legislators expressed concerns about spending the remaining bonding capacity on capital projects.

The Senate Finance Committee began holding hearings this week on the Governor's proposed capital budget. Other than these hearings, little other discussion of capital funding has occurred.

Education reform

The Governor's bills (HB 278 and SB 139) are currently being considered by the Senate and House Education Committees.

One aspect of the Governor's education proposal receiving additional focus is expansion of boarding schools. Reps. Gattis and Keller also introduced HB 291,

"Increasing the stipend for boarding school students". They propose raising student stipends to: Southeast \$1,230 (up from \$820); South-central \$1,200 (Up from \$800); Interior \$1,452 (Up from \$968); Western/Coastal \$1,509 (\$1,006) and a new bracket for northern school of \$1,776. HB 291 has moved out of House Education is now in House Finance.

Another education proposal being considered by the legislature involves increasing the amount of broadband available to schools throughout the state by leveraging federal funds through the E-Rate program. The proposals, HB 179 and SB 82, **"An Act providing for public school funding for telecommunications or Internet services,"** call for the State (and not the local districts) to meet the maximum local obligation for E-Rate. The state funds would attract four times that amount of federal funding (over \$80 million) to the local school districts, drawn from the Universal Services Fund. Currently, Alaska schools only receive about 60% of available funds due to their lack of funding. The cost of this legislation would be around \$20 million a year for the state.

SCR 9 – **"Proposing amendments to the Constitution regarding state aide for education"** is gaining additional support in the Senate. Senators Dunleavy, Dyson, Kelly, Coghill, Giessel, McGuire, Huggins and Fairclough have all signed on as sponsors to the bill. This resolution requires a 2/3 vote of the House and Senate to pass, which will be challenging to achieve. SCR 9 is poised for a vote in the full Senate.

The Gas/LNG issue

Hours of committee hearings on options for marketing Alaska Gas continue. The Parnell Administration recently presented a "Head's of Agreement and Memorandum of Understanding" to help educate legislators on this complex issue. There are several steps that must be undertaken this session:

- End the state's obligation to the unsuccessful AGIA project (Palin project)
- Authorize the Administration to enter into agreements with producers, TransCanada and the Alaska Gas Line Development Corporation.

- Establish a framework to negotiate issues such as rates, pipeline access/users and taxes.

The initial Agreements will set the stage to get the project through preliminary design and engineering. During this time, the parties will work toward securing Agreements to market Alaska LNG in Asia.

The State estimates revenues from this project at \$3 billion a year by 2024 and \$4 billion/year by 2026. Consultants hired by the Legislature caution members that the LNG market is volatile and complex. LNG has a shelf life making storage difficult and expensive. Additionally, prices vary widely per region. The key to success is locked in, long-term contracts.

Other issues of interest:

The Susitna-Watana Dam Hydro Project

Governor Parnell's FY 2015 Capital Budget reduced the Susitna-Watana Hydro Project funding request from \$110 million to \$10 million. The Governor cited the lack of land access agreements with CIRI and six other Alaska village corporations as his rationale for this reduction. Since releasing his budget Parnell stated he would reevaluate the funding request once the land agreements were in hand. This week the Governor submitted his amended FY 2015 Operating and Capital budget requests. He is asking the Legislature for an additional (\$32.7 million) for the Susitna-Watana Hydroelectric Project, but there's a catch. To get the funds, the Alaska Energy Authority must secure land access to study areas owned by seven Alaska Native Corporations.

HB 77 – The Water Rights bill

Progress is being made on this contentious issue. Certain provisions in the bill raised objections causing the bill to remain in Senate Rules last session. Senate Peter Micciche (Soldotna) has been working with DNR on amendment language. HB 77 will likely be up for a vote in the next month.

PERS/TRS unfunded liability:

Governor Parnell's proposal, transferring \$3 billion from the state's saving account (Constitutional Budget Reserve) to the Pension Liability Fund, seems to be causing some legislators concern about the size of the transfer and their inability to ever access those funds again. Discussions with key Senate and House Finance members have stalled. Given the gloomy revenue forecast legislators are hesitant to lock away money that may be needed in future years to operate state government. The

Administration continues to stress the importance of paying down this liability (\$11+ billion) to help reduce the annual obligation to the Pension Fund. Projections have the obligation continuing to grow to over a billion dollars annually within the next 5 years. The Governor's proposal would hold that annual obligation static at around five hundred million per year.

Workers Compensation Reform:

House Bill 316: "An Act relating to workers' compensation fees for medical treatment and services; relating to workers' compensation regulations; and providing for an effective date" was introduced this week by the House Labor and Commerce Committee. The bill would alter the fee schedule of payments for medical procedures arising from workers compensation claims. Currently the fee schedule is determined by "usual and customary" charges associated with specific procedures. The new schedule, determined by the Department of Labor, would be based upon a resource-based relative value scale (RBRVS). The intention of legislation is curb the cost of health care for injured workers and reduce the cost of workers comp coverage. The bill has been assigned only one committee of referral in the House—the House Labor and Commerce Committee—where it is sure to pass out of committee relatively quickly.

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