

# *Legislative Consultants in Alaska (LCA)*

*Wendy Chamberlain*

Weekly report

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## Oil and Gas

Senator Bert Stedman introduced a bill this week that separates oil and gas for taxation purposes. Under the current tax structure oil and gas are taxed together. Stedman believes that “decoupling” the two would be beneficial as oil is worth 37-40 times more than gas. Governor Parnell vetoed a similar bill two years ago because he believed the bill would deter future oil investment in Alaska. No action was taken on Friday (Jan. 27).

The Senate’s version of oil tax legislation is being drafted and will likely be introduced next week. The Senate bipartisan coalition recently hired PSE Consultants to help with tax modeling scenarios. Senate leadership stated the legislation will address two issues; the progressivity formula and incentives for heavy oil or oil that is more difficult to produce.

HB 308 was introduced by Rep. Miller (Fairbanks) last week to study the feasibility of extending Southcentral’s existing natural gas system to the Interior. The study would evaluate if building a small-diameter pipeline from the system in Southcentral to the Interior makes economic sense. The measure would also consider the feasibility of reversing the flow of the small pipeline in case a larger pipeline from the North Slope is built.

Wednesday (Feb. 1), AltaGas Ltd. announced that it will buy natural gas company Semco Energy for \$1.1 billion. Semco, a Michigan based company, owns a natural gas distribution company in Alaska called Enstar Natural Gas. Enstar is the largest natural gas provider in Alaska, serving 132,000 from the Matanuska Valley to the Kenai Peninsula.

## Budget

The Senate will likely propose putting \$1 billion to \$4 billion of surplus funds into the public employee pension fund to help reduce the deficit, which is estimated at \$11 billion. Governor Parnell is not supportive of any infusion of equity that would make billions of dollars in saving off limits if the state got in financial trouble. Senator Johnny Ellis proposed creating of a pension trust reserve fund and transferring \$2 billion from the Constitutional Budget Reserve Fund to that new fund. The Senate Finance Committee will take up the pension issue.

The governor also doesn't support a Senate bill that would allow public employees to choose between a retirement account like a 401(k) or earning a traditional pension. He said the sponsors may be trying to make the bill "cost-neutral," but that assumes good economic times in the future.

### **Military reductions**

The governor has asked the state legislature to appropriate \$300,000 to hire a consulting firm to lobby for Alaska's military bases as another base realignment and closure (BRAC) is considered by the federal government. As Congress is trying to reduce the nation's budget deficit, the Pentagon has created a strategy to reduce military spending. Defense Secretary Leon Panetta says that the Army will be cut from 570,000 to 490,000 soldiers by 2017. Future military cuts could be up to half-trillion dollars, but even with these cuts military spending would only be back to 2007 levels during the "War on Terror."

The military accounts for 10% to 13% of Alaska's economy. There are 32 installations, over 23,000 active duty service members, and over 37,000 active duty family members. It is not yet clear whether Alaska would even be in danger of losing a base or troop numbers. The military is now putting emphasis on the Asia-Pacific region, which is in much closer proximity to Alaska than other military bases.

### **Water and sewer funding**

The decline of federal funds is causing the Department of Environmental Conservation's rural water/sewer program to shrink. These federal funds provide for 75% of the program's costs and now there is no money for new projects, only for expansions of existing systems. There are 6000 rural homes without primary sewer and clean water service. 4000 are in communities where building such a system would be difficult and expensive. 2000 are in communities that have systems, but need expansion. The estimated cost to serve all these homes is \$667 million to \$700 million.

### **Supplemental budget spending**

Governor Parnell has proposed a \$97 million supplemental budget to cover unanticipated increases for the current year. This includes:

- \$38 million for legal settlements, \$18 million of which was part of the education settlement made last week
- \$3 million for disaster funding
- \$4.9 million for wildland firefighting
- \$3.1 million for oil and gas litigation
- \$5.5 million for ferry work to maintain Coast Guard certification
- money for emergency road and bridge repairs
- money for low-income heating assistance programs
- money for inmate housing and transportation.

## Legislation

The first bills of the session passed this week. On Friday (Jan. 27), **HB 131** passed the House with unanimous approval. HB 131 would create a board intended to give senior citizens and people with disabilities greater say in state transportation planning. The bill, sponsored by Representative Cathy Muñoz, will lead to an improved, more cost-effective transportation system for seniors and the disabled. The bill will now go to the Senate and if passed the board will be put in place until 2016.

The Senate passed **SB 104** on Friday (Jan. 27). The legislation allows owners of mobile homes that are permanently placed on property to treat them as traditional homes so they are eligible for traditional home financing with low interest rates. Currently mobile homes are treated as automobiles. Alaska is one of only a few states that don't yet have this provision.

On Wednesday (Feb. 1), the House passed **HB 282**. The bill helps military personnel who are leaving the service to transition into civilian life more easily by allowing them to apply military training and certification toward professional licensing or use it as credit toward a degree or technical program at UAA. In the last year 1286 military soldiers have retired or have been discharged and stayed in Alaska.

**SB 140** would specifically ban chemical compounds found in bath salts classifying them the same as peyote, cocaine, and other harmful drugs ban bath salts. It has been discovered that bath salts are more dangerous than synthetic marijuana and they are becoming more popular with the younger crowd, primarily in Anchorage and Kenai. These bath salts are available in tobacco shops and convenience stores around Alaska, making them even more dangerous. While Anchorage has approved misdemeanor charges on the subject, this bill would make it a felony charge. The bill is now pending hearings in the Senate Judiciary Committee. Hearings will involve testimony from legal and medical professionals.

**SB 154** would provide up to \$7500 in low-cost financing for homeowners to convert to gas furnaces in Fairbanks. If natural gas is brought to Fairbanks, there will be a great demand for conversions to gas furnaces from the current oil-powered heating systems. Right now only a small private gas utility serves about 1100 customers in Fairbanks. The bill was up for hearings last week in the Senate Community and Regional Affairs Committee and will likely move out of committee soon.

**HB 305**, a bill introduced by Representative Berta Gardner, would undo legislation from 2006 in which church-owned homes occupied by ministers and religious schoolteachers were to be tax exempt. The bill would remove both the exemption for teachers and the broadened definition of a minister. It would not affect tax breaks for churches themselves or religious leaders who live in church-owned homes. As of January, the Anchorage Baptist Temple owns 14 houses that are exempt from taxes. Of 79 tax-exempt religious properties in Anchorage, the Baptist Temple is the only one who claims exemption for teachers. With no up to date assessments, it is impossible to know exactly how much

their exemptions are costing the city, but they are estimated to be more than \$50,000 per year. The bill has been referred to the House Community and Regional Affairs Committee where it will get a hearing.

## **Education**

The debate over whether to increase the Base Student Allocation continues. The Senate Education Committee is considering SB 171, which would increase the BSA amount from \$5680 to \$6070 starting July 1, 2014. In the house there is a bill (HB 143) that would automatically adjust state funding based on changes in the Consumer Price Index. In a statement on Wednesday (Feb. 1), the governor showed no support for the plans to increase the BSA formula. He wants the education system to be more accountable and flexible, but he is willing to consider some fixed cost increases that involve things like heat.

Tuesday (Jan. 31), the Senate State Affairs Committee heard testimony on a bill, sponsored by Senator Donny Olson, to create the Alaska Native Language Preservation and Advisory Council. This council would assess statewide language policy and programs and seek to advance the most cost effective programs. They would be required to meet twice a year and to submit reports to the governor and legislature every two years.

The Fairbanks North Star Borough School District is now facing about \$12 million in budget cuts. The proposed budget for next year is \$216 million. Several factors have led to the need for cuts:

- A “jobs bill” grant that funds 22 teaching positions expires this year
- The district is adding 23.8 special education positions because of increasing enrollments and to keep up with legally mandated services.

These positions will cost about \$11.5 million. Using the flat-funding concept, the administration came up with a budget that will cut 95 positions.