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ALASKA BUDGET REPORT™

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MEGA PROJECTS

Bridge bill plows out of Finance, muddy road ahead

A bill approving construction of a bridge and causeway across Knik Arm by a yet-to-be-established state-private partnership won House Finance Committee approval on Wednesday.

The bill, HB 23, is now positioned for House floor action. A similar measure passed the House last April, but died in Senate Finance [see **KABATA bill flounders in Senate Finance**, *ALASKA BUDGET REPORT*, March 29, 2012, and numerous earlier stories cited there].

HB 23:

• Increases KABATA's bonding authority from $500 million to $600 million;

• Exempts the crossing and associated facilities from state and local taxes, and

• Creates a project reserve fund to provide a backstop in case tolls, starting at $5 for a passenger car, don't generate enough money to cover state payments to a private builder-operator partner.

Before the bridge opens for business in 2018, the reserve fund is to be bulked up with $150 million in state money. Gov. Sean Parnell has requested a $10 million appropriation to the reserve in FY 14, and suggested providing the remaining $140 million in four annual appropriations of $35 million.

The FY 14 $10 million survived in the Senate Finance Committee's pared-down capital budget substitute bill (CSSB 18) released on Thursday, but the money was made contingent on the passage of legislation creating the project reserve fund.

Poison pill?

Pushing the measure through the House could be harder this year, with some majority representatives now saying they want a provision requiring legislative approval before the authority issues bonds or signs a public-private partnership agreement. Crossing proponents say that would stall the project for another year, if not longer.

In House Finance on Tuesday, Rep. Mia Costello (R-Anchorage), a member of the Republican-dominated House majority, proposed requiring legislative approval. Rep. Mark Neuman (R-Wasilla), a fellow Finance Committee member and the prime sponsor of the bill, asked David Livingstone, principal financial consultant to the Knik Arm Bridge and Toll Authority (KABATA), to explain how Costello's amendment would affect the project.

"It's a deal killer," responded Livingstone, a New York-based managing director of Citigroup Global Markets Inc. In the public-private partnership proposed by KABATA, the private partner receives "availability payments" from the state based on the extent that the crossing is "available" to users. KABATA has qualified three consortiums to bid for the partnership, which will be awarded to the bidder offering to build, maintain and operate the crossing for the least amount in availability payments. Livingstone said the consortiums, which expect to spend millions preparing their bids, are unlikely to participate if the state isn't fully committed to awarding the partnership. "Any approval before the bid process starts is fine; any approval after makes it difficult to get bidders interested."

Costello's amendment would prohibit KABATA from awarding the partnership and any contract for construction without first obtaining the legislature's approval of a financial plan that would have to "include all projected construction maintenance, and operation costs for the first 40 years of the project." She later changed it to allow approval by the Legislative Budget and Audit Committee.

KABATA, a semi-independent state agency charged with planning, promoting and building the crossing, estimates the project will cost $864 million, but how that will be financed and the amount of the availability payments the state will have to make can't be estimated until the bids are opened. Costello said it's reasonable that the state have the right to review and approve the full financing plan before any final contract is signed, since the partnership deal puts the state at risk of having to pay much more.

Neuman disagreed. If legislators want the project built, they need to trust the state's financial, legal and engineering consultants to do the professional jobs they were hired to do, and not interfere.

Costello's amendment failed in an unusual 5-to-5 tie. Voting to approve the amendment were Reps. Brice Edgmon (D-Dillingham), Les Gara (D-Anchorage), Scott Kawasaki (D-Fairbanks), Cathy Muñoz (R-Juneau) and Costello.

Voting against the amendment were Reps. Neuman, Steve Thompson (R-Fairbanks), Lindsey Holmes (R-Anchorage), Tammie Wilson (R-North Pole), and Committee Co-chair Bill Stoltze (R-Eagle River). Rep. Alan Austerman, the committee's other co-chair, was called away to another meeting just before the vote.

Immediately after the amendment failed, the committee passed the bill with individual recommendations. Three members – Neuman, Wilson and Stoltze – signed, "Do pass," whereas six – Costello, Edgmon, Gara, Holmes, Kawasaki and

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Muñoz – signed, “Amend.” Thompson checked the box for, “No recommendation.”

Earlier, on March 22, when the bill emerged from the House Transportation Committee, two members also signed, “Amend,” Reps. Eric Feige (R- Chickaloon) and Jonathan Kreis-Tomkins (D-Sitka).

The “deal-killer” amendment is likely to surface again if supporters bring the measure to the House floor.

The “bridge-to-nowhere” stigma

On Tuesday the Senate Finance Committee Co-chair Kevin Meyer (R-Anchorage) opened invited testimony on the companion measure, SB 13. “We’re going to hear from some of the mayors, … and then we’re going to set the bill aside and wait for the House bill to come over, if it does.”

Meyer’s decision to delay public testimony was a disappointment to long-time project critics, including former state science and technology chief Jamie Kenworthy, Alaska Transportation Priorities Project’s Lois Epstein, a professional engineer, and another professional engineer, Bob French, president of the Government Hill Community Hill Community Council. Earlier on Tuesday in House Finance, they and others challenged the assumptions and analysis underlying KABATA’s plans.

Epstein disputed the claim that a low cost federal loan of $357 million will be available to help finance the project under the Transportation Infrastructure Finance and Innovation Act (TIFIA). KABATA applied for the loan in 2007. Despite entreaties by state officials, including a November 2012 letter from Gov. Sean Parnell pledging to put money for the project in the FY 14 capital budget, the application remains stalled.

Officially, the U.S. Department of Transportation (USDOT) says it is unwilling to move the loan application forward until the state commits more of its own money. The Parnell administration’s practice of regularly suing the federal government and sniping at federal programs can’t have helped either.

Justified or not, KABATA also carries a “bridge-to-nowhere” stigma. The authority was established in 2003, and its prospects looked good until 2005, when it came to be a national poster-child for government waste. By 2006, $231 million in federal money initially earmarked for the project was reduced to $94 million, and it became clear future federal highway funds for the project would not be forthcoming [see **DOTPF defends bridges, lawmakers remain leery**, *Alaska Budget Report*, January 19, 2006].

Kenworthy, also testifying Tuesday in House Finance, challenged what he said were wildly optimistic traffic and revenue projections prepared by KABATA’s consultant, CDM Smith (previously doing business as Wilber Smith Associates). Kenworthy, quoting a study by the Transportation Research Board of the U.S. National Academy of Sciences, said, “CDM Smith has an average rate of overestimating toll revenue by more than a factor of 2 for the first five years a U.S toll facility has been open.”

KABATA’s traffic and revenue forecasts are based on population projections that have also been controversial. In 2011, University of Alaska Anchorage (UAA) economist Scott Goldsmith wrote to KABATA Board Chairman Michael Foster demanding that he stop misrepresenting that KABATA’s population projections are consistent with those published by UAA’s Institute of Social and Economic Research.

At a House Transportation Committee hearing on Feb. 28, 2013, Foster was repeatedly asked about the discrepancy between the ISER and KABATA population numbers. He repeatedly dodged the question, saying Neuman would answer on that.

A listing of “Common Myths” about the project distributed by Neuman claimed, “KABATA’s base population forecast is consistent with others, including ISER’s 2009 forecast.”

“You can nitpick about those numbers all day long, but there's still a lot of people,” said Neuman when he testified.

Goldsmith, in a Thursday e-mail, said he stands by his 2011 letter, but suggests that more recent population data needs to be considered: “For example [the 2009 ISER base case] assumed a 4.5 bcf/day gas pipeline would be operational in 2019 and that Donlin Creek mine would begin operation in 2014. Neither will happen on that time line.” He noted that Matanuska-Susitna Borough population data for the past two years show lower growth than ISER projected in its 2009 study, and lower still than forecasts KABATA continues to rely on. “Why not use the most current information?”

“Leave that for the lawyers”

Is the Knik crossing legislation a priority for either the House or Senate majority caucuses? The measure was not on a listing this newsletter obtained of the top House priority measures. Nothing has surfaced regarding Senate majority priorities, but there is no doubt that it’s a top priority of Senate President Charlie Huggins (R-Wasilla). On March 26 Huggins, prime sponsor of SB 13, wrote Senate Finance co-chair Meyer stating, “Senate Bill 13 is my priority legislation this session.”

Huggins was the first of the invited witnesses Meyer heard from on Tuesday afternoon. He claimed construction of the bridge is justified by, among other things, the lives that would be saved from reduced traffic fatalities, and the billions that would be saved by avoiding or delaying upgrades to the Glenn Highway leading North from Anchorage. Huggins was followed by a short parade of mayors, including Anchorage’s Dan Sullivan and the Matanuska-Susitna Borough’s Larry DeVilbiss. All enthusiastically supported the project.

The bridge is expected to boost property values in the Borough, and reduce the costs of moving freight from Anchorage to Fairbanks, but benefits to the rest of the state are not clear.

“It looks to me like the state’s going to be on the hook for billions and billions of dollars if there is a catastrophic problem,” commented Sen. Donald Olson (D-Nome).

Livingstone, the KABATA financial advisor agreed that there are 21 “events” that could cause the state to face unexpected costs. But he said, “There’s been extensive studies done to determine [those risks].”

“I seem not to be making my question clear,” responded Olson. “I just want to know, is it true, what the critics are saying, that the state is going to be on the hook for billions?”

“I think I’d really prefer to leave that for the lawyers,” answered Livingstone.

[Editor’s note: The Legislative Budget and Audit Committee is scheduled to release an audit of KABATA, originally requested by Rep. Mike Hawker (R-Anchorage), at a meeting on Saturday at 9 a.m. Hawker requested an audit of key project milestones, public participation levels in the project, the risks and rewards of a public-private partnership, project funding sources, funding requirements for project completion and an evaluation of KABATA’s financial projections and usage assumptions for reasonableness.]

CAPITAL BUDGET

Senate Finance sends $2 billion capital budget to the floor

Senate Finance passed an FY 14 capital budget out of committee on Wednesday that is far smaller than the surplus-fueled spending bills of recent years. The $2 billion budget bill combines $1.9 billion of FY 14 capital spending and about $197 million of supplemental capital spending for the current fiscal year. About $1.1 billion are state general funds, along with $928 million in federal funding. In comparison, last year's capital budget was about $2.9 billion.

Senate Finance FY 14 capital budget (in millions)

	general funds	other state	federal	total
Gov's FY 14 capital	861.2	55.2	938.4	1,854.7
Gov's FY 13 supplemental	3.8	24.0	1.0	28.8
Gov total	**865.0**	**79.2**	**939.4**	**1,883.5**
Senate FY 14 capital	892.5	55.2	927.3	1,875.0
Senate FY 13 cap. supp.*	171.5	24.0	1.0	196.5
Senate total	**1,064.0**	**79.2**	**928.3**	**2,071.5**
FY 14 cap. difference	31.3	0.0	(11.1)	20.3
FY 13 supp. difference	167.7	0.0	0.0	167.7
total difference Gov to	**199.0**	**0.0**	**(11.1)**	**188.0**

*Operating supplemental numbers omitted for clarity in capital totals.

Source: Legislative Finance Division, 4/4/13

Table 1

"All I can say is, this is my fifth capital budget," co-chair Sen. Kevin Meyer (R-Anchorage) said Thursday, referring to his previous stints as a budget co-chair in the House, "And it was definitely the hardest one."

With Gov. Sean Parnell announcing a $6.8 billion unrestricted general fund spending cap for FY 14 last week, the committee wasn't left with much room to add capital projects [see **Governor's spending limit raises capital budget questions,** *ALASKA BUDGET REPORT*, March 29, 2013]. In order to make more room, Meyer's office worked with the Office of Management and Budget to cut about $100 million from the Governor's capital requests. The cuts varied widely, including $13.7 million for a Bradley Lake power transmission project, $10 million for the Juneau access road, $665,400 for the Alaska Aerospace Corporation and many other cuts across state agencies' projects.

Meyer's office also freed space under the Governor's FY 14 cap by moving two larger projects to the FY 13 budget – $95.2 million for the Susitna-Watana hydroelectric project and $15 million for the Alaska Geologic Materials Center project – and rolling the supplemental spending into the capital budget bill. In an interview Thursday, Meyer said moving the funding for the two projects to the current year's budget would allow for summer fieldwork on the Susitna-Watana project and for the state to purchase a less-expensive location for the geologic materials center.

“We were actually going to build that, but by buying the old Sam’s Club in Anchorage, which had refrigeration and everything they need for the core samples, and buying it early, it saved us $22 million.” Meyer acknowledged, though, that moving the projects to the FY 13 budget also adds $110 million to the expected amount the state will have to draw from savings to cover this year’s budget deficit [see **Lean and balanced**, *ALASKA BUDGET REPORT*, January 17, 2013].

Overall, Meyer said, the committee added about $200 million in projects to the capital budget, far short of the billion dollars the Legislature added last year. Though Meyer has consistently maintained this session that the capital budget would be much smaller this year than in recent years due to dour fiscal forecasts [see **Governor’s spending limit raises capital budget questions**, *ALASKA BUDGET REPORT*, March 29, 2013 and **Capital expectations**, *ALASKA BUDGET REPORT,* January 25, 2013], public expectations seemed to remain high going into this week. “I think they were expecting less, but maybe not quite that much less,” Meyer said.

Meyer aide Suzanne Armstrong reported in committee Thursday that the Legislature had received $3.9 billion in project requests for FY 14. “I think I’ve made everyone equally mad, so I think it’s a pretty good capital budget,” Meyer said in reference to projects that weren’t funded. “It was quite a change going from almost a billion dollar add last year to a little over $200 million.”

Of course, Senate Finance is only the first stop for the capital budget in the legislative process. With the current versions of the operating and capital budgets, unrestricted general fund spending is at about $6.74 billion for FY 14, leaving about $60 million for the House to add more projects.

SB 18, the capital budget bill, is scheduled for the Senate floor today.

Table 2 below summarizes the geographical distribution of money in the Senate version of the capital budget.

Senate capital spending by House district (in millions)

District(s)	Region	Total	Senator(s)
1–5	Fairbanks Areawide	$108.0	Coghill, Kelly, Bishop
6	Richardson Highway	$54.5	Bishop
7–11	Mat-Su Areawide	$120.0	Dunleavy, Huggins, Dyson
11–27	Anchorage Areawide	$228.0	multiple
28–30	Kenai Areawide	$52.5	Giessel, Micciche
7–30	Southcentral Region	$145.7	multiple
32	Juneau/Skaway/Petersburg	$3.0	Egan
31–32	Juneau Areawide	$70.1	Egan
33	Ketchikan/Wrangell	$43.2	Stedman
34	Southeast Islands	$67.7	Stedman
31–34	Southeast Region	$12.2	Egan, Stedman
35	Kodiak/Cordova	$47.4	Stevens
36	Dillingham/Illiamna	$73.7	Stevens
37	Bethel/Aleutians	$52.9	Hoffman
38	Wade Hampton/McKinley	$47.9	Hoffman
39	Bering Straits/Interior	$72.6	Olson
38–39	Western/Rural Interior Region	$0.2	Hoffman, Olson
40	Arctic	$45.5	Olson
1–40	Statewide	$826.5	all
	Total	**$2,071.5**	

Source: Legislative Finance Division, 4/4/13

Table 2

What's in?

As he has over the past several weeks, with an eye on reducing government spending in times of decreasing revenues, Meyer said he had three focuses in judging capital projects: maintaining existing state assets, finishing multiphase projects in progress and funding projects that serve a critical need in different regions of the state.

"The bigger question that I have is: can we afford to do all this?" Meyer said of starting new projects before others are finished. "The Juneau access, the KABATA, the Watana-Susitna, the in-state gasline, the engineering colleges. That's what has me really worried. Let's not start anything new until we can make sure some of these ones that are already out there we can afford to finish."

Some of the larger projects funded in the Senate Finance version of the budget that were not included by the Governor include:

- $28.3 million for Project 80s facilities in Anchorage (Sullivan Arena, Egan Center, etc.)
- $4 million for the Blue Lake hydroelectric project in Sitka
- $5.8 million for a volunteer fire station in Girdwood
- $10 million for a Ketchikan medical center

- $4.5 million for landfill improvements in Kodiak
- $8.2 million for the Bogard Road extension project in the Mat-Su Borough
- $25 million for the Port MacKenzie rail extension project in the Mat-Su
- $2.5 million for a Petersburg police station
- $3.5 million for the Bogard waterline extension in Palmer
- $8 million for a marine industrial center in Seward
- $5 million for the South Denali visitors center
- $10 million for the design of a vessel to replace the F/V Tustumena

Thursday morning, the committee added two more projects to the budget: $3 million for airport snow removal equipment in Juneau and $25 million for school construction in Kwethluk, a school from the *Kasayulie* settlement.

What's out? – Engineering buildings, revenue sharing don't make the cut

Two of the items not funded in the Senate Finance version of the capital budget were the two that received the most support in public testimony on Monday – the new engineering buildings at UAA and UAF and an additional $25 million for municipal revenue sharing on top of the $60 million already in the budget.

In committee on Thursday, Meyer said the price tag to finish the two university engineering buildings was just too much this year. "Everyone at this table I think it's safe to say support both engineering colleges … it was just that to do both of them, to finish them was going to be $109 million and if your total adds are $200 million that would have been over half of it. We just couldn't do that."

Sen. Johnny Ellis (D-Anchorage), who has sponsored a bill to fully fund both buildings, called the lack of money for the projects in the capital budget "very shortsighted."

"Every well-informed person agrees that engineering is a top priority for the university and for training this next generation of Alaskans to get good Alaskan jobs," Ellis said. The Finance Committee, he said, could at least have put partial funding for the projects into the budget to prevent delays in construction. "Anybody who claims to be fiscally conservative and responsible with state finances knows that we should be doing this this year. Now if it crowds out other people's pet projects, that can be negotiated. But I hope the Senate and House majority do the right thing and have at least enough money to avoid cost increases and demobilization."

In an interview Thursday, Meyer said even the minimum amount to prevent construction delays, about $30 million, was still "a big chunk" to ask for in this year's reduced capital budget, especially given the Governor's spending cap. "The concern about going over his $6.8 billion cap is that he starts vetoing a lot of stuff to get there." Meyer said consensus would be needed between the Senate, House and the Governor on whether or not to fund the engineering buildings this year. A third option would be to put a bond proposition for the engineering buildings on the ballot next year, though the length of time needed would delay construction on the projects.

As far as revenue sharing is concerned, Meyer said the Legislature has provided $25 million in extra funding in recent surplus years, but that conditions were different this year. "When we had extra money we wanted to share it with our communities. We don't have extra money anymore. So we went back to the basic agreement, which was $60 million, and that's fully funded."

Individual school projects, separate from school construction and major maintenance money, and a mainstay of recent surplus-year capital budgets, are noticeably scarce in the numbers section of this year's bill. Many school projects, though, were funded in the language section of the budget through reappropriations – the process by which legislators can reassign unspent funds from finished projects in their districts. Since these funds have already been appropriated in previous years, they don't count towards the totals in this year's budget. Nevertheless, there are school-related reappropriations in the Senate version of the budget for everything from $150,000 for Service High School pool improvements to $5,000 to replace the flagpole at Mt. Edgecumbe.

You got operating in my capital budget!

As mentioned above, with the end of session near, Senate Finance rolled a number of items from the Governor's supplemental budget, including some operating items, into the capital budget for expediency. This included the $25 million reduction to Medicaid services funding in the supplemental budget achieved through the cost containment measures of the Medicaid Taskforce [see **Medicaid cuts balance FY 13 additions**, *ALASKA BUDGET REPORT*, January 31, 2013]. The committee also cut about $1.6 million to remove FY 13 funding for unfilled positions across various state agencies, according to the Legislative Finance Division.

Public Testimony

In a marathon, nine-hour committee meeting on Monday, the Senate Finance Committee took public testimony on SB 18, the capital budget bill. Two hundred people from around the state called in or testified in person in Juneau on the Governor's version of the spending bill. The two items to receive the most support were $25 million for municipal revenue sharing and $100 million to complete the new engineering buildings at UAA and UAF.

Capital budget testimony in Senate Finance

topic	# of testifiers*
Municipal revenue sharing	33
UAA/UAF engineering buildings	19
CCS Early Learning facility in Mat-Su	13
Cordova community center	9
SLAM building in Juneau	8
Soil & water conservation districts	8
UA – Alaska Center for Energy & Power	8
Ketchikan hospital	6
AVTEC	5
Alaska Mobility Coalition public transport.	5
Tsunami debris clean up	5
AHFC weatherization & home energy rebate	4
Oppose Nenana bridge	4
Valley Performing Arts facility	4
Anchorage Neighbor. Health Cent. Shuttle	3
Alaska Engineering Academies	3
Kodiak Area Native Assoc. health center	3
Partners for Progress recidivism reduction	3
Other	65

**Total greater than 200 because several people advocated for more than one budget item. Topics with fewer than three testifiers omitted for space.*

Table 3

Senators heard testimony from mayors and city managers, executive directors and CEOs, engineering students, community volunteers, professors, parents, teachers and Alaska residents of all kinds. The size, scope and purpose of the requests varied greatly. Despite attempts by legislative leaders to temper expectations about the size of this year's capital budget, members of the public approached the committee with several large requests.

Cordova residents called to ask for "a mere 7.7 million bucks," as one man put it, to finish a new community center building. People from Juneau and Fairbanks asked the committee for $20 million for the State Library, Archives and Museum (SLAM) building in Juneau. Ketchikan asked for $20 million for a new hospital. "All we need is money, guys," one testifier said while asking for $7 million for a new police department in Petersburg.

Many requests did not fall on deaf ears, though not always for the full amount requested. Cordova received $1 million for their community center in the Senate's latest version of the capital budget. Ketchikan got $10 million for its hospital. The SLAM facility received the full $20 million requested. Petersburg received $2.5 million in FY 14 funds and $1.4 million of reappropriated funds for its police station.

Committee members responded to smaller requests as well. Ilisagvik College in Barrow got $85,000 for industrial safety training equipment. After Rhonda Pitka from Beaver described the rundown state of her community's washeteria, the committee appropriated $100,000 for the project. The committee set aside $1 million for tsunami debris clean up in the supplemental section of the capital budget bill and another million for the Alaska Association for Conservation Districts.

OIL AND GAS

Oil tax bill leaves Resources

After Wednesday's House Resources hearing that lasted from the early evening until the wee hours of Thursday morning, the committee moved out its committee substitute for the Governor's oil tax reform bill. The hearing was at times a comedy of errors, at times an exchange of thinly-masked vitriol and at times a theater of the absurd. In the end the committee managed to reduce the state's take further than the Senate had, to add a new element of complexity and to reinsert language from Gov. Frank Murkowski's short-lived PPT tax that cost the state hundreds of millions of dollars in the PPT's first year.

When the major producers testified about SB 21 in House Resources last week, they sounded a cautiously optimistic tone [see Oil tax bill hits House Resources, ***ALASKA BUDGET REPORT***, March 29, 2013]. On the plus side was the death of progressivity, but industry spokesmen all said the base tax rate of 35 percent was still too high for their liking, and they wanted a better share of the gross revenue exclusion (now being referred to as the gross value reduction) to apply to legacy oil fields. Whether Resources gave them exactly what they were looking for or not is open to debate, but the committee's CS reduces the base rate to 33 percent, leaves the $5 credit in place for new oil and applies a sliding-scale version of that cash credit to legacy oil. The sliding scale, which ranges from $8 at low prices to zero if oil hits about $160, adds an additional progressive element to the bill. The Resources CS also reverts to the stricter, "acreage-based" method of getting the GRE in legacy fields originally added in Senate Resources, rather than the "well-based" method devised in Senate Finance. The competitiveness commission was twice modified and finally cut in a surreal sequence of amendments.

Another major change to the Resources CS came by way of an amendment by Rep. Mike Hawker (D-Anchorage) that resurrected lease expenditure language from Murkowski's PPT bill. That language allows the state to use internal "joint interest billing" information between partners within a producing unit, rather than conduct a full line-item audit of those transactions. It could limit the state's ability to determine whether or not some transactions are legitimately worthy of "lease expenditure" status. Though it's difficult to pinpoint how much the state lost via this practice under PPT, Alaska's revenue under that regime fell short of expectations by about $800 million in just the first year. One of the primary goals of the ACES tax reform effort was to rectify that problem.

Though no fiscal notes were available before the CS moved from Resources, the reduced base rate will cost the state $500-$600 million per year (at current oil prices) more than the Senate version until the hoped-for production begins to flow. However, the new, stair-stepped credit feature creates a slightly more progressive line, resulting in a modestly higher government take at higher oil prices.

While the base rate has been a point of debate for much of the session, it has to be considered in conjunction with the other features of the bill. The 20 percent GVR for new oil, in conjunction with the $5 per barrel credit reduces the effective rate significantly, reducing it below 20 percent at lower prices. In order to return to a net-zero revenue loss for the state, a sustained production increase of at least 40,000 barrels per day would be needed, depending upon price.

Does it move the needle?

The primary goal of the governor's bill has been to counter the production decline, and increase the lifespan of TAPS. The philosophy has been that ACES has made the state uncompetitive in the global market, and unattractive for investment. Legislators have struggled to determine where to draw the line on government take so that producers will move investment dollars back into Alaska without devastating state revenues. Because producers are hesitant to say where exactly where that line is, it becomes a complex guessing game. The question has been, will this reform "move the needle?"

House Speaker Mike Chenault (R-Nikiski) said he believes the bill being crafted will accomplish that goal. "I think that we will move the needle," Chenault said. "I think you might see some people in the industry come out and make some positive statements if we pass this thing. I don't think you'll just hear positive statements I think you will see some movement. And that's what we're looking for. I think industry will look at it and say, this works so I can go to Houston, or I can go to wherever and I can fight for more investment money for Alaska. More investment usually means more oil, and that's what we want."

Even among the supporters of the governor's approach there is some disagreement about how much revenue the state should forego to encourage massive industry investment. The Senate barely passed the bill on an 11-9 vote, and to reach the required 11th vote the body had to remove a provision that would have dropped the base tax rate to 33 percent in 2017. Holding the base rate at 35 percent was enough to sway Sen. Click Bishop (R-Fairbanks) to support the bill. The question now is, how far can the House go in changing the bill before Bishop, and possibly other Senate supporters peel off?

House Finance now receives the bill, and the committee's actions could decide whether any oil tax legislation passes during the 2013 regular session. Chenault said that can't be a concern for House members.

"Our big concern is, one, making sure if we're going to make a change that it works. That it accomplishes what we want it to do," Chenault said. "And if it does, and that means we have to tweak the knobs, I'm not concerned whether they (the Senate) can pass it on their side. That's their problem. We have to craft a bill that meets the requirements we want it to, so that we have 21 votes to pass it on our side. While we may be concerned about things we've heard over there, we're going to do what the House needs to do in order to get it in a position where House members support it."

If the Senate does fail to concur with the House's final product, the bill will be sent to a conference committee made of members from both bodies. Either that committee will achieve a compromise acceptable to both bodies, or the bill, like the governor's previous two attempts at oil tax reform, will die. The stakes are high, and both House and Senate leadership named oil tax reform as their top priority this session, giving them strong incentive to work out any differences.

House Finance will now begin deliberating the complex legislation with less than 10 days to go in the regular session.

Gasline bill moves quickly through Senate Resources

After a long journey through the House the in-state gasline bill cosponsored by House Speaker Mike Chenault (R-Nikiski) and Rep. Mike Hawker (R-Anchorage) moved through the Senate Resources without much fanfare and with no changes.

SB 4 would complete Chenault and Hawker's efforts to create a powerful state corporation capable of planning, designing and potentially building a small-diameter natural gas pipeline from the North Slope to tidewater, delivering natural gas to Fairbanks, Anchorage and other communities along the way. The corporation, AGDC, was originally formed as a subsidiary under the Alaska Housing Finance Corporation, and has developed what Chenault and Hawker say is a viable plan for an in-state line.

Because the provisions of the Alaska Gasline Inducement Act (AGIA), Alaska's current gasline law, limit the volume of other gas pipelines in Alaska, AGDC's line could carry no more that 500 mcf of natural gas per day. Opponents of HB 4 say gas from such a low-volume line would be too expensive to be economical without large state subsidies. The sponsors have claimed that AGIA's plan will deliver affordable gas to Alaskans without the need of anything more than about $400 million in seed money from the state [see **Gasline bill moves forward**, *ALASKA BUDGET REPORT*, March 8 2013].

The bill underwent several changes while moving through the House (most of them made by the sponsors). The most significant change was the removal of "moral obligation" language that could have put the state's bond rating at risk, but other changes were made to the way the project would be regulated how confidential information would be handled. Opponents of the bill have said the changes were largely cosmetic, and they maintain concerns about the significant powers and exemptions afforded to the corporation.

Even as the bill was voted on in the House, floor debate indicated disagreements and some confusion about how the corporation will function, whether or not it will require state revenues to accomplish its mission and what the likely cost of its gas will actually be. When asked what he thought was the source of those questions Hawker said, "I think some legislators are choosing to use facts to what they see as their own advantage. Certainly the greater part of the body has been listening, observing and understanding what these components are. Quite frankly, if they had disagreed in substance with what we're doing, we'd have heard about it. Are people voting blindly? Absolutely not."

What if it passes?

The sponsors of the bill have, all year, pronounced their primary goal as providing Alaska gas to Alaskans at the lowest price possible? But trying to determine what the cost of that gas will be before an open season where potential shippers and buyers would come to the table to begin to set possible terms is nearly impossible. The volume limitations complicate matters since less gas in the pipe necessarily means higher tariffs, and a higher cost to end customers. A 2011 Roger Marks report for the federal government estimated it would cost the state as much as $3.5 billion in subsidies to put reasonably-priced gas in Alaskan's homes and businesses. The sponsors say that's simply not true, but AGDC's Frank Richards has admitted there's no way to tell how much gas would be committed or what the tariffs might be until an open season is held.

In the meantime, whether an open season for a small-diameter line succeeds or not, AGDC will enjoy powers and exemptions including the right to property tax exemptions, rate-setting powers, the power of eminent domain, exemption from judicial review and exemption from the state's procurement codes, among others. The corporation, because it will be treated as a contract carrier, will also be less regulated by the Regulatory Commission of Alaska than would make some legislators comfortable, and there is no requirement for AGDC to return to the Legislature for sanction before moving from an open season to construction of the line.

Despite the sponsors' confidence, history has shown that nothing is certain when it comes to building natural gas pipelines in Alaska. Even though AGDC would be equipped with the ability to plow through or navigate around the economic barriers that have stumped previous Alaska gasline projects, many uncertainties remain. Because it is so early in the process, there is still a wide range in construction cost estimates, meaning cost overruns could increase the tariff beyond the hoped for levels.

In the meantime, the Trans-Canada project sanctioned under AGIA also continues move forward. That proposal is for a larger volume project that would include a large export component – making it more economic, and driving down the price of gas for consumers, should the project actually succeed. Chenault and Hawker contend that Trans-Canada's project has stalled, and that at best it won't provide much-needed energy relief to Alaskans soon enough.

Also, they say, AGDC is designed to be flexible enough to merge with another project, like Trans-Canada's, should that option become more attractive. Due to the powers and exemptions AGDC would carry, such a merger could be attractive to the major lease holders, Conoco-Philips and Exxon. When asked if such a merger would be a great benefit to those companies Hawker said, "I want to be very clear at the very beginning that neither Exxon or any producer has had any role in the development or sponsorship or interest in this legislation. Because frankly there are some people in this building claiming that this is Conoco-Phillips-sponsored legislation. This is about providing the state with every ability it needs to facilitate accomplishing a gasline project that delivers gas into the hands of Alaskans as soon as possible at the lowest possible cost."

Chenault took a somewhat less defensive stance. "It gives Alaska a strong seat at the table," Chenault said. "And who do I want at the table, but the strongest corporate entity that I can put together? Who do I want negotiating for me, do I want Barney Fife, or do I want G. Gordon Liddy? I want to get the brightest and the smartest people into AGDC to do that negotiating for me. They're going to be negotiating against Exxon, Conoco, BP – big corporations that have the smartest people, and you want people just as smart."

Can it pass?

With less than two weeks to go in the 2013 legislative session, HB 4 must move through the Senate Finance Committee and the Senate floor. It's a short period of time for such a complex bill, and Senate Majority Leader John Coghill (R-North Pole) said he thought it would be a difficult task. Still, given the easy path the bill enjoyed through Senate Resources, anything is possible, and the sponsors are optimistic about their chances.

For a detailed explanation of what is in the current version of HB 4, and what its potential ramifications are, please see the March 8 edition of the *ALASKA BUDGET REPORT*.