

MEMORANDUM

To: AEA Board of Directors
Thru: Curtis Thayer, Executive Director
From: Brenda Applegate, Chief Financial Officer
Date: August 24, 2019
Re: Power Cost Equalization Endowment Fund Sweep

Article 9, sec 17(d) of the Alaska Constitution requires that money in the general fund available for appropriation at the end of each fiscal year be deposited into the Constitutional Budget Reserve Fund (CBR) to repay amounts withdrawn from the CBR. This is referred to as the “sweep” into the CBR. The State of Alaska Department of Law (DOL) reviewed whether this requirement applies to the unobligated balance of the Power Cost Equalization Endowment Fund (PCE Endowment Fund). DOL determined the PCE Endowment Fund is available for appropriation and has all the essential attributes of general fund money and is therefore subject to the sweep. The DOL opinion on this issue is attached (Attachment A). The Office of Management and Budget (OMB) also evaluated the application of the sweep requirements and determined the PCE Endowment Fund is subject to the sweep. The determination was effective for the fiscal year ending June 30, 2019. The PCE Endowment Fund has not been subject to the sweep in previous years. See Attachment B for OMB’s evaluation.

Subsequent legislation, passed in the current legislative session, approved the reversal of the sweep of the June 30, 2019 balances. The reversal is effective July 1, 2019 and puts the swept funds back to where they were prior to the June 30, 2019 sweep. The PCE Endowment Fund balances were therefore re-established with the reversal of the sweep.

PCE Endowment Fund Background

The PCE Endowment Fund was established under Alaska Statute (AS) 42.45.070-42.45.099 as a separate fund of AEA. The primary purpose of the fund is to provide funding through its interest earnings to fund the PCE and rural electric capitalization fund. The fund consists of:

- a) Legislative appropriations to the fund not designated for annual expenditure for the purpose of power cost equalization
- b) Accumulated earnings of the fund; and
- c) Gifts, bequests, contributions of money and other assets, and federal money given to the fund that are not designated for annual expenditure for power cost equalization.

Use of the PCE Endowment Fund is set out in AS42.45.085. Five percent of the amount determined by the commissioner of revenue on July 1 of each year may be appropriated by the Legislature for specific purposes as identified in statute.

The Legislature capitalized the PCE Endowment Fund through several appropriations. Appropriations associated with the sale of the Four Dam Pool Hydroelectric Project included \$100 million from the CBR and approximately \$90 million from certain sale proceeds and an insurance fund. An additional \$400 million was appropriated in fiscal year 2011. The PCE Endowment fund is a separate fund of AEA and is not a dedicated fund.

Financial Statement Impacts of the Sweep and Reversal

The sweep and reverse sweep transactions must be reflected on AEA's financial statements in accordance with Generally Accepted Accounting Principles (GAAP). AEA, in coordination with the Division of Finance, will determine the amount subject to the sweep from the PCE Endowment Fund into the CBR at June 30, 2019 and swept back into the PCE Endowment Fund on July 1, 2019. AEA has not yet received the FY19 sweep amount. The cash and investment value of the PCE Endowment Fund at June 30, 2019 was \$1.07 Billion. The amount subject to the sweep will take into account appropriation commitments made prior to June 30, 2019 meaning those amounts are not subject to the sweep.

We have been in communication with AEA's outside financial auditors and the Division of Finance regarding the appropriate reporting of the sweep/reverse sweep transactions in AEA's financial statements. We anticipate there will be a liability on AEA's FY19 Statement of Net Position (Balance Sheet) for the amount of the FY19 sweep and an offsetting reduction of Net Position. The FY19 Statement of Activities (Income Statement) will reflect a transfer out to the CBR (an expense). There was not an actual cash transfer from the PCE Endowment Fund to the CBR at June 30, 2019 so we anticipate AEA's Statement of Net Position will reflect the value of the PCE Endowment Fund cash and investments at June 30, 2019.

In FY20, due to the reverse sweep legislation, we anticipate a reversal of the FY19 transactions on the Statement of Net Position, resulting in a reduction of the liability and increase in Net Position. The Statement of Activities will reflect a transfer in from the CBR. Consistent with the DOL opinion that the PCE Endowment Fund is subject to sweep, we would anticipate a sweep transaction to occur at June 30, 2020, which will create entries similar to those reported at June 30, 2019, a liability to the CBR and reduction of Net Position. If reverse sweep legislation is passed relating to the FY20 sweep, these entries will be reversed July 1, 2020.