

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**March 20, 2002**  
**9:44 AM**

**TAPES**

SFC-02 # 37, Side A

**CALL TO ORDER**

Co-Chair Pete Kelly convened the meeting at approximately 9:44 AM.

**PRESENT**

Senator Dave Donley, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Jerry Ward, Vice Chair  
Senator Lyda Green  
Senator Gary Wilken  
Senator Alan Austerman

**Also Attending:**

**Attending via Teleconference:** From Anchorage: SARA FISHER-GOAD, Alaska Industrial Development and Export Authority and Alaska Electric Association

**SUMMARY INFORMATION**

SB 182-PRO RATA REDUCTIONS IN BENEFIT PROGRAMS

The Committee adopted an amendment and the bill moved from Committee.

SB 185-PCE BASED ON HIGHEST COST

The Committee heard from the Alaska Electric Association. A committee substitute and an amendment were adopted. The bill was held in Committee.

#SB182

SENATE BILL NO. 182

"An Act requiring reductions in payments to individuals under certain benefit programs if appropriations are not sufficient

to fully fund the statutorily established levels of payments."

This was the second hearing for this bill in the Senate Finance Committee.

AT EASE 9:45 AM / 9:46 AM

Co-Chair Donley reminded this legislation implements a pro rata process. He noted testimony indicated that some funds should not be included in this provision, such as the fisherman's fund.

Amendment #1: This amendment inserts additional statutory references in Section 1, page 2, line 2. The amended language reads as follows.

(j) The provisions of (i) of this section do not apply to payment under AS 23.30 (Workers' Compensation Act), AS 23.35.060-23.35.100, AS 25.23.190 - 25.23.240, loan programs, state employee retirement benefit programs, or benefit programs for which other provisions of law address underfunding.

Co-Chair Donley moved for adoption, explaining this amendment addresses the aforementioned concerns.

There was no objection and the amendment was ADOPTED.

Senator Austerman referenced a memorandum by the sponsor relating to SJR 43 [copy on file.]

Co-Chair Donley spoke of discussions that some federal programs might have "maintenance of efforts requirements" that could prevent pro rata from being implemented. He pointed out SJR 43 requests the federal government to impose a moratorium on maintenance of efforts requirements for a short period each year to allow states to "readjust their levels" for various federal programs.

Co-Chair Donley offered a motion to move CS SB 182 (FIN) from Committee with a forthcoming indeterminate fiscal note from the Department of Administration, and eight new indeterminate fiscal notes from the Office of Management and Budget, All Agencies, and the Department of Health and Social Services: Public Assistance, Alaska Temporary Assistance Program; Public Assistance, General Relief Assistance; Public Assistance, Adult Public Assistance; Purchased Services, Foster Care Base Rate; Purchased Services, Foster Care Augmented Rate; Purchased Services, Foster Care Special Need; and, Public Assistance, Tribal Assistance.

Senator Austerman informed he would not object to reporting the bill from Committee but that he might vote against its passage from the Senate.

The bill MOVED from Committee without objection.

#SB185

SENATE BILL NO. 185

"An Act relating to the basis for determining eligibility for and the amount of power cost equalization payments; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee. Co-Chair Donley reminded that a Senate Finance subcommittee heard statewide public testimony on this legislation.

Co-Chair Donley stated one goal of this bill is to restructure the power cost equalization (PCE) program so that it could be fully funded by the PCE endowment fund. He indicated the "target" annual cost is approximately \$13 million. He stressed considerable effort has been made to "simplify those revisions and to make them as fair as possible."

Co-Chair Donley stated the PCE endowment fund lost money in the previous year and that even if the fund posted earnings it could not generate enough income to fund the PCE program. He commented that when the endowment was established, the funds were appropriated under the condition that it would "solve the problem." He pointed out the state does not have an endowment for education, public safety or public health. He continued that "one of the components that did not materialize, as was represented at the time" was contributions from the National Petroleum Reserve-Alaska (NPR) in the form of federal impact aide to rural communities. He attributed this, plus the failure of the endowment to produce "what I think of as a very, very over-optimistic return rate" of seven percent, to the inability of the endowment to fully fund the PCE program. He pointed out the average return rate for large foundations and endowments is approximately four to five percent.

Co-Chair Donley furthered the intent of this legislation is also to "bring some true fairness to the program." He informed that several Alaskan communities are not eligible to participate in the PCE program although the rates in those communities are higher than the rates in qualifying communities.

Co-Chair Donley indicated that a proposed committee substitute, Version "W", addresses these goals in two ways. First, he stated, it increases the rate that electricity is "subsidized down to". He spoke to the complication of the current PCE formula and attempts to assess the average usage of medium and small communities and establish that amount as the amount the state would subsidize. He pointed out this method is more fair than the current method of comparison to Anchorage, Juneau and Fairbanks. He qualified, "there are some ambiguities" but that the range is between 15.69 and 18.84 cents per kilowatt-hour, and the rate set in committee substitute is the average of 16.75 cents per kilowatt-hour.

Co-Chair Donley spoke to the other significant change in the committee substitute, which addresses the consumption limit. He explained the current consumption limit is 500 kilowatts per month and the average use is approximately 450 kilowatts per month. He remarked the current limit does not encourage conservation nor does it consider seasonal usage. Therefore, he said the committee substitute stipulates a limit of 450 kilowatts per month for the six winter months and 350 for the six summer months.

Co-Chair Donley stated these changes would result in savings for the program and lower the annual cost to approximately \$12,840,000. He commented this amount "is still very generous" and "is within the realm of reasonable expectations of the endowment." He asserted that for the "long-term health" of this program, it is essential to lower the annual expenses to an amount that could be paid from the endowment.

Co-Chair Kelly asked the actual dollar amount this year.

Co-Chair Donley replied the answer depends upon who is asked. He noted over \$15.7 million was funded to the PCE program for FY 02 and the Governor requested \$17 million for FY 03. He noted the PCE program contains a pro rata provision, and the endowment did not earn money in the past year. He stressed it was made clear when the endowment was established that the level of funding for the program was not guaranteed and would be partially based on contributions from the NPRA and the performance of the endowment.

Co-Chair Donley moved for adoption of CS SB 185, 22-LS0465\W as a working draft.

Senator Wilken asked about a federal economic stimulus package and pending federal energy legislation, which might contain funds for the PCE program.

Co-Chair Donley replied there is a possibility that the federal

government would make an appropriation to the PCE endowment of approximately \$5 million per year for "several years". He qualified that this would not be significant to raise the balance of the endowment to meet the current level of expenditures, although it could have an impact over time. He stated that if the federal funds were appropriated and the endowment generated enough money to fund the program at the current formula level, the higher level could be reinstated. He suggested the Legislature revisit the issue at a later time.

Senator Wilken asked if a fiscal note was available for the proposed committee substitute.

Co-Chair Kelly answered there is not.

Co-Chair Donley referenced handouts: Table A, PCE Estimates, Committee Substitute for Senate Bill 185; Table B, PCE Estimates, Comparison of CS SB 185 with existing statute funded at \$15,700,000; Table 1, Alaska Residential Electric Usage and Cost-Fiscal Year 2001, Sorted by Utility; Table 2, Alaska Residential Usage and Cost-Fiscal Year 2001, Sorted by Effective (After PCE) Rate per kWh; and, Table 3, Alaska Residential Electric Usage and Cost-Fiscal Year 2001, Sorted by Pre-PCE Rate per kWh [copies on file.] He explained this information shows the affect of this legislation on each community. He noted the proposed changes would result in some communities receiving a small increase.

SARA FISHER-GOAD, Alaska Industrial Development and Export Authority and Alaska Electric Association, testified via teleconference from Anchorage that the tables are based on information she provided to Co-Chair Donley's office.

Senator Austerman informed he had been active in the process to establish the PCE endowment. He had understood that the endowment was funded "based upon what we thought we could get into it at the time" and that additional funds would be sought to contribute to the endowment. He recalled original estimates of \$35 million federal funds that could be received over five to seven years.

Senator Austerman did not oppose the "floor concept" of limiting the PCE program spending to \$12.8 annually, although he was unsure 16.75 cents per kilowatt-hour is an accurate figure.

Senator Austerman next compared the United States and portions of Alaska located along the rail belt, which have access to a power grid and the ability to secure the most economic power sources, to rural areas of Alaska, which have limited access to power sources. Because of this, he said, the PCE program should be continued.

Senator Austerman voiced a concern that the PCE program spending would be limited to \$12.8 million without a "buffer" in the event the endowment grew and could sustain the proposed annual \$15.7 million expenditures. He expressed interest in discussing methods to accomplish this without appropriating additional state funds.

Co-Chair Kelly asked the amount necessary for the endowment to ensure an adequate rate of return sufficient to fund the PCE program.

Senator Austerman answered that \$190 million was established as the maximum amount the state would contribute to the endowment and would consist of \$90 million from the sale of the Four Dam Pool project and \$100 million from the Constitutional Budget Reserve (CBR) Fund. He furthered an additional \$40 million would be necessary for the endowment to fully fund the PCE program at \$15.7 million annually, and that these funds were to be secured from other sources.

Senator Austerman emphasized the investment market did not perform as anticipated. He pointed out that although it was predicted the sale of the Four Dam Pool would take two years to finalize, it took longer and the funds were not actually deposited into the endowment until January 2002.

The committee substitute was ADOPTED without objection.

Co-Chair Kelly asked what impact the potential \$35 million federal appropriation would have on the endowment.

Senator Austerman replied this amount would increase the endowment almost enough to adequately fund the PCE program \$15.7 annually. He noted that if the appropriations were allocated over several years, more time would be necessary before the endowment fund was sufficient.

Senator Wilken calculated that to fund the program at the FY 03 Governor's request of \$17.2 million, using a five-percent rate of return, the endowment balance must be \$345 million. He furthered that at a seven-percent rate of return the balance would have to be \$245 million to fund the program. He then calculated that funding the program \$15.7 million annually, using five-percent earnings, the endowment must be \$315 million.

It was established the current balance of the endowment is \$190 million and the estimated required need to fund the program is \$230 million.

Co-Chair Kelly reiterated that an annual rate of return of seven percent is too optimistic.

Co-Chair Donley noted that even if the program spending were reduced to \$12.8 million, the earnings of the endowment would be inadequate to fully fund the program. He opined, "The original endowment theory... didn't work without the NPRA money being involved."

Senator Austerman clarified \$9 million from NPRA was appropriated the year the endowment was established, although it was not deposited to the endowment and was used to fund the program itself.

Ms. Fisher-Goad affirmed \$9,163,000 million was deposited into the PCE program fund

Senator Austerman asked if it was anticipated that additional funds would be appropriated to the endowment.

Co-Chair Kelly replied that funds would be appropriated each year from the NPRA.

Co-Chair Donley recalled discussions were held in the Senate Finance Committee regarding reforming the PCE program and that "a commitment was made for the NPRA money" and the decision was reached that if the NPRA funds were received, the program spending would not have to be reduced. He remembered the co-chair emphasizing this point.

AT EASE 10:13 AM / 10:15 AM

Amendment #1: This amendment adds intent language to the committee substitute to read as follows.

It is the intent of the legislature that if the amount available for appropriation from the Power Cost Equalization Fund under AS 42.45.085 is more than required to fund the Power Cost Equalization program, the legislature will review the statutory provisions to consider adjustments the maximum eligible KWL usage, the minimum and maximum charges allowed for calculating Power Cost Equalization payments and other provisions of the program.

Co-Chair Donley explained this language is in the event federal funds are appropriated to the endowment. He moved for adoption.

Senator Austerman objected for discussion purposes. He expressed he

did not know the "overall intent" of the Committee with regard to the PCE program. He suggested if the intent is to continue to control the process, this amendment is appropriate. However, he advised if the intention is to establish a self-sufficient program, this amendment is not necessary.

Co-Chair Kelly relayed discussions he had with the sponsor and another affected Committee member where he learned the sponsor's intention to establish an operable PCE formula with an endowment that is protected. He also shared conversations with community members indicate the fund should be protected as well. He remarked the difficulty is that the state does not have the funds available to deposit into the endowment to allow the program to be self-sufficient. He suggested the program should therefore be scaled down to allow the endowment to grow through federal appropriations, with the intention of readdressing the formula when the endowment is better established.

Senator Austerman did not oppose the concept of "pulling back" but did not want to have to address the matter of funding the PCE program every year.

Co-Chair Donley understood and expressed similar desires for municipal assistance and funding for education. However, he asserted that the state constitution requires the Legislature to address every expenditure each year and prohibits the dedication of funds, which he supported. He explained there could be a year when not all programs could be funded and the Legislature must prioritize education, public safety and public health.

Co-Chair Kelly commented that technically "everything is on the table every year" with regard to funding for the PCE program, but assured that if the endowment were operating properly, it would probably not be revisited.

Senator Ward asked if the proposed level of services is the same as the amount provided currently under the pro rata provisions. He noted the current division director [director not specified] is the first to implement the pro rata provision.

Co-Chair Donley replied, "The director's pro ration target this year is 15.7 " million dollars. He noted this is with the intent of withdrawing \$7 million from the corpus of the endowment, which defeats the long-range goal of the endowment.

Co-Chair Kelly commented this is an improvement over previous practices of funding the program at "whatever level". He qualified earlier intentions relating to the original endowment "went out the

window" when it was learned the NPRA appropriations "would not materialize". He stressed an act of congress would be necessary to secure this funding. He opined the goal of the Committee should be to achieve a healthy endowment that is self-supporting. He indicated that unpredictable funding is a health and safety issue.

Senator Austerman asserted that regardless of NPRA funding, it was understood there would be a period of time before the endowment began earning interest.

Co-Chair Donley commented this was one reason he voted against the legislation establishing the PCE endowment because it was portrayed as eliminating the need for general funds, although he knew otherwise. He admitted the delay in the sale of the Four Dam Pool was unanticipated.

Senator Austerman clarified it was understood that the interest earnings of the endowment would not totally fund the PCE program.

Senator Austerman reemphasized the need to protect the principal of the endowment. He asked the amount of general funds necessary to fund the program.

Co-Chair Donley answered it depends on the revenue of the endowment in the upcoming fiscal year.

Senator Austerman removed his objection to the adoption of Amendment #1.

The amendment was ADOPTED without objection.

Co-Chair Kelly ordered the bill HELD in Committee.

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**ADJOURNMENT**

Co-Chair Pete Kelly adjourned the meeting at 10:28 AM