

HOUSE FINANCE COMMITTEE  
April 4, 2006  
1:41 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:41:03 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Richard Foster  
Representative Mike Hawker  
Representative Jim Holm  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Beth Kerttula  
Representative Carl Moses  
Representative Bruce Weyhrauch

MEMBERS ABSENT

None

ALSO PRESENT

Pete Ecklund, Staff, Representative Kevin Meyer; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; Representative Bill Thomas; Kaci Schroeder, Staff to Representative Bill Thomas; Ron Miller, Executive Director, Alaska Industrial Development and Export Authority (AIDEA); Peter Crimp, Project Manger for Alternative Energy and Energy Efficiency, Department of Commerce, Community and Economic Development; Sara Gilbertson, Legislative Liaison, Department of Fish and Game; Kathie Wasserman, Alaska Municipal League; Paul Fuhs, City and Borough of Yakutat.

PRESENT VIA TELECONFERENCE

John Schnabel, Haines; Mike Harper, Deputy Director, Rural Energy, Alaska Energy Authority; Rueben Loewen, Development Specialist; Becky Gay, Project Manager, AEA; Dick Mylius, Deputy Director, Division of Mining Land and Water, Department of Natural Resources; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; Larry Wiget, Director of Government Relations, Anchorage School District; Mary Francis, Executive Director, Alaska Council of School Administrators; Chris Rose, Executive Director, Renewable Energy Alaska

Project; Meera Kohler, President and CEO, Alaska Village Electric Co-op; Josh Larose, Southwest Municipal Conference.

SUMMARY

SSHB 57 "An Act relating to the sale of certain state land to adjacent landowners."

CSSSHB 57(FIN) was REPORTED OUT of Committee with an indeterminate fiscal note (DNR) and individual recommendations.

HB 493 "An Act relating to reimbursement of municipal bonds for school construction."

HB 493 was HEARD and HELD in Committee for further consideration.

HB 445 "An Act relating to the alternative energy grant fund and to alternative energy grants."

HB 445 was HEARD and HELD in Committee for further consideration.

#HB57

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 57

"An Act relating to the sale of certain state land to adjacent landowners."

REPRESENTATIVE WEYHRAUCH, SPONSOR, spoke to the bill. He explained that the bill was introduced to induce the state to purchase federal lands for sale in January, 2006, as well as to clear the way for right away disputes over development of private interests. He noted that his own family often visited wilderness experiences in Alaska and commended John Schnable from Haines who operates a small tourist gold mine in Haines, Alaska. Mr. Schnable is experiencing difficulty with state lands adjacent to his property. Representative Weyrauch explained that the bill would allow the Department of Natural Resources to negotiate sales of isolated parcels of government owned land at fair market value to adjacent land-owners. The land must be smaller than twenty acres and completely enclosed. He expressed that he did not normally participate in "special interest bills", but speculated that this bill did not harm, but rather made a fair market transaction possible. He also mentioned a proposed amendment by the Department of Natural Resources that would further protect the State's interests by adding a "best interest finding" in the event of public easement. He proposed that this added a level of government oversight, while allowing an "arms' length" transaction.

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JOHN SCHNABEL, HAINES, TESTIFIED VIA TELECONFERENCE regarding the bill. He stated that the reason he wished to negotiate a sale as opposed to an outcry auction was due to the prohibitive upfront costs involved in such auctions. He explained that he was developing 80 acres into a tourist destination, and did not wish this work to be disturbed should another party wish to purchase the small parcel contained in his property. He noted he had invested over a million dollars to keep his land in pristine condition, and wished to keep it so. He mentioned he had no problem with any right of way through the land, or any trail designation if that should become applicable.

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DICK MYLIUS, DEPUTY DIRECTOR, DIVISION OF MINING LAND AND WATER, DEPARTMENT OF NATURAL RESOURCES testified via teleconference. He explained that in most cases, when state lands were sold it was through a competitive process, although in certain circumstance state law allows dealing with one individual through "preference rights". This bill adds to a current preference right bill. He noted that this usually took place when an individual had significant rights or investment in the property. He noted that in this case, the state had acquired a parcel of land through foreclosure, making it a self-contained parcel, completely surrounded by Mr. Schnable's other land. He explained it could not be sold under existing preference right statutes, and the public would not be interested since it was included in an individual's property. He noted it had already been surveyed, and a best interest finding would be completed before the sale.

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Representative Chenault asked whether this was the only parcel in this circumstance statewide. Mr. Mylius stated that his Department was unaware of any other similar parcels, although he speculated that there might be other parcels in this situation. He noted that most State land was acquired in large tracts, and this had been an exception, acquired under foreclosure during the mining registration law of the early 1960's.

Responding to a follow-up, Mr. Mylius confirmed that this bill could be used for such a circumstance in the future.

Representative Kelly observed that the bill permitted rather than instructed the Director. He asked what the price for a twenty-acre parcel might be. Mr. Mylius responded that the largest expense in this case was the public notice

requirement, which cost roughly \$1 thousand, in addition to a \$2 thousand in staff time. He noted that last year two new positions were established to deal with a backlog of preference rights. He explained that this accounted for the zero fiscal note.

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Responding to a follow-up by Representative Kelly, Mr. Mylius noted that the applicant would not pay staff time, but rather the newspaper publication costs.

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Representative Kerttula observed that with best interest findings, the Department could protect against an individual attempting to purchase a parcel with unique value. Mr. Mylius confirmed that the Department could decide not to grant the right to purchase.

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Representative Holm asked whether a sunset provision was appropriate since this was a unique parcel. Mr. Mylius responded that it might be a helpful tool to have in the future for a similar circumstance.

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Representative Hawker referred to the "sale of an isolated parcel" as referred to in the bill and asked how they would interpret "isolated". Mr. Mylius stated that they interpreted this as being unattached to any other block of state land, since in this case it was totally surrounded by private lands.

Responding to another question, Mr. Mylius confirmed that the current preference right that deals with isolated parcels most often have pertained to urban parcels that had no public value and were unattached to other state lands.

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Representative Hawker asked whether this would apply to a municipality that owned land that surrounded state property, allowing them to petition for a preference right. Mr. Mylius noted that municipalities already had other statutes that allow the State to transfer land to them, such as municipal entitlement. He noted that to his knowledge no municipality had ever applied under the current preference rights statutes.

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Representative Hawker asked whether there was any exposure to the state that should be considered before passing the bill. Mr. Mylius stated that there was no additional exposure, and referred to the proposed amendment, which ensured the best interest finding.

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Representative Foster commented that he had a 10-acre Native allotment surrounded by State Land and wondered if this provision would apply. Mr. Mylius noted that in this circumstance, if an allotment were surrounded by state land, it would not apply. He noted that a sale in this case would be done through a competitive process.

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Representative Kelly asked whether, if several individuals were interested in the same parcel, the "best interest finding" would apply. Mr. Mylius confirmed that in this case the public process would help determine the best interest.

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REPRESENTATIVE BILL THOMAS, HAINES, testified in support of the bill. He expressed his knowledge of John Schnabel and applauded his efforts over the years to develop the parcel.

Co-Chair Meyer closed public testimony.

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Representative Weyhrauch MOVED Amendment #1, 24-LS0319\Y.1, Bullock, 3/31/06. Representative Joule OBJECTED.

Representative Weyhrauch noted that the Department of Natural Resources had suggested the amendment after the bill had moved out of the House Resources Committee. He explained that it was intended to provide further protection to the State's interests, especially in providing access to State waters.

SARA GILBERTSON, LEGISLATIVE LIAISON, DEPARTMENT OF FISH AND GAME, testified about the amendment.

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Ms. Gilbertson noted that the Department of Fish of Game worked with the Department of Natural Resources and the Department of Law to create the amendment. She explained that there were instances of small parcels of land completely surrounded by State land, when the State land contained a water source. She stressed that the State

wished to ensure access to water, and suggested that they add the proposed language, demanding a best interest finding to be made by the Director before conveying a parcel. She concluded that the finding would not affect the transaction in question in Haines.

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The OBJECTION was REMOVED. There being no objection, the Amendment PASSED by unanimous consent.

Representative Stoltze asked about the suggestion of a sunset provision. Representative Weyhrauch reminded the Committee that the testimony referred to the future need for such a tool.

Representative Hawker pointed out that that the fiscal note was indeterminate, rather than a zero fiscal note as previously referenced.

Representative Weyhrauch expressed his hope that the state of Alaska would create revenue through this bill.

Representative Kelly questioned whether the title of the Bill should refer to State land rather than Federal Land. Representative Weyrauch noted that the original title of the bill referred to purchase of Federal Land.

Representative Foster MOVED to REPORT HB 57 out of Committee as Amended with an Indeterminate Fiscal Note (DNR) and individual recommendations. There being NO OBJECTION, the motion PASSED by unanimous consent.

#HB493

HOUSE BILL 493

"An Act relating to reimbursement of municipal bonds for school construction."

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PETER ECKLUND, STAFF TO REPRESENTATIVE KEVIN MEYER testified regarding the bill. He explained that the bill proposes to allow municipalities to bond for school construction and renovation projections beginning November 1, 2006 and ending November 1, 2008. He noted that under current legislation, any municipality could ask their electorate to approve funding for school capital projects. The principal and interest payments would then be eligible for partial payment by the State. Municipalities would be reimbursed for 60 percent of the cost of all projects that met all the space allocation guidelines set forth by the Department of Education and Early Development. Mr. Ecklund noted that a 40 percent reimbursement rate would apply to projects that

exceeded the space allocation guidelines. He stated that currently there were over \$146 million in projects submitted to the Department that could qualify for this reimbursement.

Co-Chair Meyer asked for an explanation of how the 60/40 percent was arrived upon, rather than the previous 70/60 formula. Mr. Ecklund explained that in 2002, the passage of HB 2003 opened a two-year period of school debt reimbursement. He stated that \$699 million of debt was authorized to be reimbursed by the Department -- 55 percent at the 70 percent rate, and 45 percent at the 60 percent rate. It followed that nearly half of the schools took advantage of the 60 percent rate. The Department concluded therefore that the 60 percent rate must have proven fair and attractive to municipalities.

Co-Chair Meyer referred to the current program, in which the State paid for 70 percent of costs of a Department of Education approved project, and asked if the program was still in effect until October 1, 2006.

Mr. Ecklund stated that there was a non-capped program open between December of 2002 and December of 2004. He noted that currently there were \$192 million of projects authorized to be bonded until October of this year, with different caps for schools with different enrollment rates. He explained that the current program finances 70 percent of the cost of approved projects, and 60 percent of unapproved projects, expiring in October of 2006.

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Co-Chair Meyer clarified that under the proposed program, if a project was on the approved list, it would qualify at the 60 percent rate, with no caps. He asked if the proposed lower rates of reimbursement were related to the current level of indebtedness. Mr. Ecklund stated that the debt service payments for previously authorized debts was \$94 million, which did not include the nearly \$300 million in projects that have been authorized but not requested. He also noted that for every \$100 million in debt authorized, the State's debt service payments increased \$6 million per year for twenty years. He concluded that if all authorized projects requested payments, it could increase the State's debt payments by \$18 million annually.

Responding to a follow-up by Co-Chair Meyer, Mr. Ecklund confirmed that currently the debt level was uncertain.

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Co-Chair Meyer speculated that since this bill proposed the lower rate, it would result in a lower overall debt.

Representative Stoltze observed that a project would need to meet requirements after it was submitted. He expressed certain frustrations with the capital project process of the Department of Education and Early Development in terms of waiting time and expense.

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Representative Joule asked if a tax relief or community dividend bill might be a companion to this bill, and observed that this seemed to pass a debt burden to communities, which often resulted in higher property taxes. He acknowledged that while his comment was somewhat facetious, it also pointed out a real issue. He asked if an earlier debt reimbursement bill connected to a General Obligation (GO) bond. Mr. Ecklund confirmed that a GO Bond package on the ballot in 2002 addressed previous debt reimbursement.

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Representative Joule observed that there was current construction in rural Alaskan schools that pertained to this issue.

Co-Chair Meyer pointed out the \$25 million in the budget to complete maintenance items from the previous year, and his awareness of other rural construction or repair projects that would need to be addressed by the capital budget.

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Representative Joule asked for clarification about the section of the bill that was funded at 40 percent. Mr. Ecklund responded that during the last two-year period, there were 70 and 60 percent debt reimbursement provisions. He reiterated that during that time, 45 percent were paid at the 60 percent level for unapproved projects.

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Representative Stoltze noted an earlier proposal with a 50/50 proposition in the interior, but noted that these could not be determined without certain agreements. He expressed concern over whether this represented a "bidding war".

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Co-Chair Meyer noted that this was the highest amount the State felt they could reimburse based upon current debt loads. He suggested that in the past years, with a lower debt load, the State was able to reimburse up to 70 percent,

but that currently, a 60 percent ratio seemed more reasonable.

Representative Stoltze commented that the Matsu Borough and School Board had experienced frustration in trying to receive the State funding needed to adequately house students. He expressed the need for discussion about the proper ratio of reimbursement funding.

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EDDY JEANS, DIRECTOR, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT testified regarding the bill. He complimented Mr. Ecklund for his explanation of the bill's history. He then pointed out the indeterminate fiscal note prepared by his Department, since it was currently unclear which schools or projects would apply for this reimbursement. In response to an earlier question about how many projects were currently outstanding, he stated that currently \$100 million had been authorized by voters and the Department of Education. He noted that municipalities had not yet issued these bonds. He also stated that an additional \$200 million had been authorized last year, partially approved by the Department and by voters. He confirmed Mr. Ecklund's earlier observation that for every \$100 million in the 70 or 60 percent reimbursement ratio, the estimated annual debt payment to the State was \$6 million for approximately 20 years. He emphasized that currently the State's debt burden was \$94 million, with an additional \$18 million estimated for the next two years, putting the State's debt reimbursement program at approximately \$112 million.

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Mr. Jeans then pointed out that at the ratios in the proposed legislation, the State's debt program would drop to approximately \$5 to \$5.5 million per \$100 million authorized.

Co-Chair Meyer referred to a handout pertaining to State Capital Funding, provided by the Department of Education, and asked if the Department recommended the 60 percent ratio.

Mr. Jeans responded that the recommendation made in the report was for a greater variance between reimbursement levels for those projects that met, as opposed to exceeded, the Department approved space guidelines. He pointed out that nearly half of the projects authorized under HB 2003 exceeded space guidelines, leading the Department to conclude that a ten percent differential did not seem to matter to districts. They therefore recommended a larger span between percentages.

Co-Chair Meyer concluded that the Department was concerned more with the span than the actual percentages. Mr. Jeans stated that the Department would leave it to the legislators to decide the reimbursement levels, but pointed out that the impression that a ten percent differential would deter districts from department from space guidelines had proven untrue.

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Representative Kelly asked whether the amount of projects exceeding space guidelines created a financial burden. Mr. Jeans responded that when HB 2003 was passed in 2003, the Department knew there were projects that exceeded space guidelines, but did not anticipate that nearly half the debt reimbursement would fall under that category. He reiterated that the ten percent difference did not seem to deter districts from building outside space guidelines.

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Representative Stoltze referred to past contention over the development of criteria, and asked if enough weight had been placed on areas with documented rates of growth. He asked if in effect there existed a penalty for pre-planning.

Mr. Jeans acknowledged that in the current system there was not a provision to encourage future planning in municipalities. He noted that they currently focused on reacting to problems of overcrowding. He noted however that they did allow for six or seven year enrollment projections when applying for new space. He conceded that in areas like Matsu, the system was not currently able to keep up with the level of growth.

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Representative Stoltze suggested that it might be helpful to provide reimbursement for land acquisitions in advance. He noted the increasing difficulty to find adequate parcels, as well as contentious legislative efforts in the past attempting to lower costs.

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Representative Joule asked if grant funding to schools unable to bond had ever exceeded space guidelines. Mr. Jeans responded that there had not. Representative Joule followed up by observing that negotiating space differences occurred prior to the Department issuing its priority list for the year.

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Mr. Jeans noted that grant projects must fall within space guidelines, and only under HB 2003 and SB 73 last year did the State allow debt reimbursement for projects that exceeded space guidelines.

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Responding to a question by Representative Kelly, Mr. Jeans confirmed his Department's belief that a 20 percent differential would affect the number of projects that exceeded space guidelines.

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LARRY WIGET, DIRECTOR OF GOVERNMENT RELATIONS, ANCHORAGE SCHOOL DISTRICT testified online. He commented on the success of the school debt reimbursement program, and pointed out that higher reimbursement numbers made it easier to pass bonds with voters. He confirmed that the School District supported the bill, but stated that they would like to extend the time for the new program, from November 1, 2008, to November 30, 2008 to allow for the election to occur that year for approving bonds without holding a special election.

Co-Chair Meyer proposed that they create CONCEPTUAL AMENDMENT changing the end date of the legislation.

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Representative Hawker asked whether, if they approved the shift in percentage reimbursements, it would reflect poorly on the legislative support of schools.

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Mr. Wiget expressed appreciation of the program being currently put forth by the legislation. He reiterated that the greater the level of participation by the State the easier it was for districts to pass bonds, but expressed appreciation for the reimbursement program.

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Representative Stoltze noted that the April election in Anchorage, as opposed to an October election in other parts of the State, seemed to cause problems of non-conformity, in this case necessitating an amendment.

Co-Chair Meyer expressed the desire to HOLD the bill in order to address further amendments.

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Representative Holm referred to very large school projects, and asked if a more standard school system in Alaska was more cost effective for the state, rather than individual designs.

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Mr. Jeans explained that the Bond Reimbursement Review Committee had examined the issue of prototype schools. They found that in larger communities like Anchorage, prototypes worked well at the elementary school level, since there were so many schools. However, the State has not adopted a standard prototype for high schools.

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Responding to another question by Representative Holm, Mr. Jeans noted that examination of this issue led to prototypes being used in Anchorage and Fairbanks. He noted that there was not enough construction in the state of large schools to make prototype models economically favorable.

Representative Holm observed that all schools have a similar function, and suggested that the cost for construction should not change by changing the appearance of a unique school. He expressed that a \$54 million high school made him uncomfortable.

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Mr. Jeans reiterated that the Bond Reimbursement Review Committee had examined prototype schools and found them ineffective at the high school level. He stressed that they used such models effectively for elementary schools in Anchorage and Fairbanks.

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MARY FRANCIS, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS, (ACSA), testified regarding the bill. She noted a resolution in support of extending the bond debt reimbursement program and expressed appreciation to the committee. She also stated that ACSA members would like to see a higher reimbursement rate.

Co-Chair Meyer closed public testimony.

Co-Chair Meyer MOVED Amendment #1, 24-LS1752\G.1, Mischel, 3/20/06, changing the end date of the legislation from November 1, 2008, to November 30, 2008. There being NO OBJECTIONS the Amendment was ADOPTED.

HB 493, as Amended, was HEARD and HELD.

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Representative Stoltze, following up on the discussion on school design uniformity, asked for a list of schools and populations to be provided by Mr. Jeans. He noted that in his district, school populations ranged from 700 to 2,200.

#HB445

HOUSE BILL NO. 445

"An Act relating to the alternative energy grant fund and to alternative energy grants."

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Representative Stoltze MOVED to ADOPT Work DRAFT 24-LS1311\X, Cook, 3/31/06. There being NO OBJECTIONS the Committee Substitute (FIN) was ADOPTED.

[2:42:00 PM](#)

REPRESENTATIVE BILL THOMAS, Sponsor, introduced his staff, Kaci Schroeder and testified regarding the bill. He explained that the bill proposed to take ten cents per barrel from oil price revenue sharing and place it into an alternative energy fund, to be administered by the Alternative Energy Authority (AEA). He noted that AEA already had the infrastructure necessary to administer grants. He estimated that the fund would generate approximately \$30 million per year. The program funding mechanism could be in place only if the price of oil was \$35 per barrel or higher. The program funding could sustain itself if left alone. He explained that the AEA would direct the funding to support alternative and efficient energy projects. Grants may not exceed \$20 million, but grantees may be eligible for more than one grant over time. Projects are to be submitted to the AEA, who would use their existing criterion to determine project viability. Grantees must match funding at 25 percent. He defined an alternative energy project as "a project that produces energy for the production of electricity, heat or medical power, derived from renewable or local resources other than liquid petroleum, primarily diesel." He went on to define energy efficiency project as one that "improves the efficiency of energy generation, transmission or use at facilities across the state". This includes facility installation, energy efficient lighting, and improved use of diesel fuel. He defined an electric utility as "an entity that provides power for public consumption and has been certified by the Regulatory Commission of Alaska (RCA)".

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Representative Thomas noted that the legislation was crafted following a trip to Yakutat, where the cost of fuel was an issue, and residents expressed a desire to utilize nearby natural gas, but lacked the financial resources to create a system. He pointed out that when Haines converted to hydro-electric power, although some were skeptical, it has provided steady rates in the current climate of rising costs. He expressed the desire for the State to plan for the future.

Representative Thomas proposed that the bill would benefit urban as well as rural communities. He noted that in South Central Alaska, natural gas was running low. He stressed that using current resources to solve these problems would save money in the future. He stated that some communities in his district use over a million gallons of diesel per year. He suggested that with a grant program, a community could bond their share and recoup the funds over a six or eight year period, using technologies such as wind and tidal surge. He also proposed that it could free up some PCE funds.

Additionally, Representative Thomas noted that decreasing energy costs to consumers puts money back into the Alaskan economy. He referenced the Fire Island project, and Chugiak Electric that sought to harness geothermal power at a nearby hot springs, as well as some southeast communities looking into using wood fire to heat swimming pools and cut down on wood waste. He concluded his presentation by pointing out that projects would be screened by the AEA rather than approaching the legislature directly, thereby streamlining the funding process.

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Representative Thomas expressed his usual stance as a pro-industry legislator, and conceded that a new environmental focus was novel for his office. Co-Chair Meyer observed that using hydro energy seemed wise for Representative Thomas' district and asked if there was reference to nuclear energy in the bill. Representative Thomas stated that, although there was allowance for nuclear projects in the bill, the AEA did not currently allow such projects.

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Representative Holm asked about the criterion that would be adopted to determine economic viability of a project. He maintained caution in giving authority to regulatory agencies, and asked for assurances of fair and unbiased decision making.

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Representative Thomas reiterated that AEA already had established criteria in place, as well as a process for reviewing projects. He cited several communities that would benefit from the proposed program.

Representative Hawker referred to earlier comments, and asked for clarification of the idea of the State having "extra" wealth. Representative Thomas referred to the vote to reserve \$600 million and proposed that if the State used \$20 to \$30 million to support alternative energy projects, communities could be weaned from dependence on diesel fuel. He referred to several communities that were being helped with small grants to retire debt and go forward with energy projects. He observed that oil prices were not expected to decline, and suggested it would be wise to use reserves for pro-active programs. Responding to another comment by Representative Hawker, Representative Thomas mentioned the PPT bill and the perception that \$1 billion to \$2.3 billion in revenue would be raised by the State. He suggested that some of the monies should be used to make the State more energy independent. He maintained that the funding for his bill would be generated by the State's royalties, if they were at a level over \$35 per barrel. He proposed that, if adopted, the program would use ten cents per barrel for energy projects. He stressed that he did not believe that the entire \$20 to \$30 million per year would be spent on projects.

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Representative Hawker insisted upon clarifying the notion of "extra" wealth. He referenced the "prevailing price", or West Coast price, of \$35 per barrel. He proposed that more than \$45 per barrel was needed to balance the State's budget, and maintained that by taking ten cents from the amount it increased the State's deficit. He stated that there was not currently adequate funding for social services, and proposed that taking \$100 million out of the budget would result in deficit spending for the State.

Representative Thomas replied that projects would ultimately be channeled through the legislative budget process, giving legislators the opportunity not to fund them if funds were not available. He emphasized that since his district was dependant upon diesel, it was a priority for him to see them replace this with alternative energy.

Representative Hawker expressed concern that even with a large increase in taxes on the oil industry, the funding was already spent. He debated the idea that the State was in the position of having "extra" wealth.

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Representative Thomas emphasized that this was an appropriation bill, and would come before the Committee yearly for approval. He urged approval.

Vice-Chairman Meyer agreed that the bill was timely and had merit, and suggested that the funding source would be worked out in the legislative process.

Representative Joule commented on the hope for the gas line. He noted that a benefit of the gas pipeline would be access to that energy for Alaskans in various areas of the State. He stressed that the proposed legislation is to explore alternative energy to areas that will not have access to the gas line reserves. He emphasized the appropriateness of these areas seeking alternative energy methods. He observed that the bill attempted to liberate these communities from dependence on diesel fuel. He encouraged the legislation.

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Co-Chair Meyer agreed that especially in remote areas like Kotzebue, such alternative sources would be very helpful.

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RON MILLER, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (AIDEA) testified regarding the bill. He agreed that the bill did not create a new program, but rather created another source of funding for existing alternative energy programs. He noted that the program was currently funded primarily by federal funds, but was completing an outside solicitation. He stated that they used an established set of guidelines in evaluating potential projects. Their primary focus is on the life cycle savings of a project. He referred to the Alternative Energy Newsletter, and described projects such as the Prince of Wales Island hydro electric project, funded by a combination of grant fund and funds from the power project loan fund. He noted that this project would displace over half a million gallons of diesel annually for that area. He expressed support of the bill.

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Representative Holm asked what criteria were employed to decide which areas and projects would be funded.

PETER CRIMP, PROJECT MANGER FOR ALTERNATIVE ENERGY AND ENERGY EFFICIENCY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT responded that they conducted life cycle economic analyses for each project, looking at the overall savings for its life. He noted that for a hydroelectric project with a span of 40 years, the costs

were compared over a horizon to an existing project, for example a diesel power project, and then to the present value of savings. He noted that they ranked projects by benefit to costs ratios and allocated resources according to these ratios.

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Representative Holm asked how various communities would be chosen. Mr. Crimp noted that they would choose the community project with the most savings compared to the least costs.

Representative Holm asked if any biases existed, and only strict calculations were used. Mr. Crimp noted that they made every effort to conduct "arms' length" assessments of projects, using a financial analysis as well as an analysis of technical merit.

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Representative Holm noted a concern expressed about the project at Fire Island, regarding loss of wildlife and other deterrents. He speculated that projects might contain possible problems not addressed from a financial standpoint. He asked how these concerns were taken into account.

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Mr. Crimp explained that before Alaska Energy Authority provided any funding for projects, they required all necessary permits. He noted that before Fire Island could be approved, it would need permits from Fish and Wildlife service, as well as possibly the FAA, Core of Engineers, etc. Balanced financing for the project is also required.

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Representative Kerttula observed that the ultimate goal of the bill was not only to provide good sources of energy to various areas Statewide, but also long-term cost savings. Mr. Crimp confirmed that this was the thrust of the Authority's program - to reduce the overall cost of providing energy to the State.

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Representative Joule asked about the progress of the Ing River project. Mr. Crimp explained that a feasibility analysis was being conducted for the project in Knik Arm, that would use tidal flow turbon technology. He noted that the same technology could be employed in the Yukon River. Although the economics were currently unclear, he stated

that the overall effort has been useful in producing common assumptions, and projected 3 to 5 years for completion.

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Representative Hawker referred to Page 2, Lines 8 to 13, which discusses criterion for grant projects. He asked for clarification of "economically viable" as well as "services of the grantee". He also asked how economically liability was determined if a project proved unviable, as had been the case in some past projects.

Mr. Crimp referred to earlier testimony by Mr. Miller about the ranking of proposals. He noted that the services that reduce costs for consumers would receive the focus. He also stressed that the current program required a match, sometimes as much as 60 percent, involving out of pocket match as well as financing.

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Representative Hawker noted the current bill contained only a 25 percent match, and asked if a performance bond would be required equal to State funding. Mr. Crimp responded that there was no requirement for a performance bond, but emphasized that the recipient's investment in a project was an incentive for project success.

Representative Hawker maintained that while providing an incentive for programs, the State remained liable for lost revenue.

[3:15:14 PM](#)

Representative Holm asked if these projects were under the supervision of the Regulatory Commission of Alaska (RCA). Mr. Miller stated that some utilities were not regulated by RCA.

[3:16:08 PM](#)

Representative Kelly referred to a presentation given about the small, interconnected hydro power plants for exchange into the Northwest. He observed that in major Alaskan communities in Southeast this might be a viable option. He cited personal experience with various experimental energy projects, and noted that hydro-electric power tended to be the most proven resource, as opposed to other projects which were more speculative. He asked if this project focused on hydro power as a solution for Alaska.

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Mr. Miller responded that they had not been approached with such a proposal, and speculated that, especially as an export project, it would have to prove cost effectiveness for Alaska. Representative Kelly noted that diesel efficiency and hydro projects seemed to have the greatest amount of improvement, but observed that sometimes these projects might be adversely affected by climate and other environmental factors.

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Mr. Miller noted that they were very active in hydro electric projects, supporting them through grant and financing programs. He noted two successful hydro projects in Juneau, as well as on Prince of Wales Island. He also noted that diesel efficiency has proven successful, particularly with in-use efficiencies such as lighting retrofits. He noted that Juneau had some of the lowest energy rates in the States due to hydro projects.

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Vice Chairman Stoltze opened the floor to public testimony.

CHRIS ROSE, EXECUTIVE DIRECTOR, RENEWABLE ENERGY ALASKA PROJECT, testified via teleconference in support of the bill. He observed that 40 states have incentive policies built in at the state level for energy renewal. He observed that the price of oil was projected to remain high, and that communities that relied solely on this source would face increasing costs. He also noted that there were opportunities for improvements in the rail belt. He explained that his organization was educating the public on the changes in technologies. For example, in some areas of the country, wind was the cheapest form of energy available. He also noted that having a policy like this bill would create a future energy framework for the state. He stated that the renewable energy market was the fastest growing in the country. The "clean energy market" was predicted to quadruple in nine years' time. He concluded that if policies like this were put in place, consumers would benefit from fixed rate power, such as instituting a wind generator in rural areas. He emphasized that efficiency was also part of the overall program needed. He concluded that they believed in the merit of the policy, and encouraged legislators to use the amount of oil as a guidepost in how much was invested into alternative energy.

[3:26:14 PM](#)

MEERA KOHLER, PRESIDENT AND CEO, ALASKA VILLAGE ELECTRIC CO-OP testified via teleconference in support of the bill. She explained that they were a utility providing energy to

21,000 Alaskans in 52 villages. She observed that the bill provided an opportunity for communities dependent on oil to develop some alternatives to rising oil costs. She applauded the bill's link to the cost of oil, and the high level cap on the grants, as well as the 25 percent cash match. She concluded that the bill brought Alaska closer to energy independence and encouraged its support.

[3:28:09 PM](#)

Representative Kelly asked if her organization would be amenable to assuming the completion risk of a venture, or converting the 25 percent match to a loan. Ms. Kohler noted that 25 percent of the cost of a project was absorbed by the utility, and the other costs were covered by the granting agency. She noted that the utility would retain the risk of the 25 percent, unless they convinced the granting agency to share any additional costs.

[3:30:28 PM](#)

Representative Kelly observed that if a project was unsuccessful, a utility would need to take on completion costs for a project that was not generating revenue. Ms. Kohler concurred, and added that if a project was funded at \$5 million, and actually cost \$6 million, the utility would need to bridge that gap. She stated that they might approach the federal government, but confirmed that the utility would somehow need to come forward.

[3:31:38 PM](#)

JOSH LAROSE, SOUTHWEST MUNICIPAL CONFERENCE, testified via teleconference in support of the bill. He referred to current newspaper articles about the prices of diesel fuel, as well as the rural energy funding bills, concluding that the funding for rural diesel energy would prove unsustainable. He pointed out that the debate was regarding how to best provide options to these rural areas. He stated that small communities were facing a bleak financial situation, and that the bill presented immediate as well as future relief.

[3:33:46 PM](#)

KATHIE WASSERMAN, ALASKA MUNICIPAL LEAGUE, testified in support of the legislation. She stated that the bill was forward thinking, encouraging investigation into utilities' future, and cost savings in areas such as educational facilities. She cited her experience as mayor of a small community, and recalled the high rate of energy cost to these areas. She proposed that if more communities had the option to study other means it would provide savings.

[3:36:02 PM](#)

Co-Chair Meyer asked about the nature of the hydro plant in her area. Ms. Wasserman noted that the was put in place a long time ago by the cold storage company that founded the community of Pelican, and not paid for by the city or State.

[3:36:38 PM](#)

Representative Hawker pointed out the \$7 billion dollar liability to the pension plan by the State. He asked how he could invest in this program without addressing this other legal liability.

[3:37:17 PM](#)

Ms. Wasserman suggested that there might be other areas where monies could be cut in the budget. She offered to discuss these ideas with legislators.

[3:37:59 PM](#)

PAUL FUHS, CITY AND BOROUGH OF YAKUTAT, testified about the costs of energy to smaller communities. He recalled the importance of savings measures to these areas.

[3:39:48 PM](#)

Co-Chair Meyer agreed that the legislation was a good idea. He offered to work with the Sponsor to come up with alternative funding.

[3:40:57 PM](#)

HB 445 was HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 3:41 P.M.