

SENATE FINANCE COMMITTEE  
March 12, 2008  
2:57 p.m.

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at [2:57:17 PM](#).

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Charlie Huggins, Vice-Chair  
Senator Kim Elton  
Senator Donny Olson  
Senator Joe Thomas  
Senator Fred Dyson

MEMBERS ABSENT

None

ALSO PRESENT

John Weise, Staff, Senator Lyman Hoffman; Dan Fauske, CEO/Executive Director, Alaska Housing Finance Corporation, Department of Revenue; Kate Troll, Executive Director, Alaska Conservation Alliance; Megan Waggoner, Juneau; Madelin Siedler, Juneau; Representative Mike Doogan; Senator Johnny Ellis; Dana Owen, Staff, Senator Johnny Ellis; Tom Brice, Agent, Alaska District Council of Labors; Don Etheridge, Alaska AFL-CIO

PRESENT VIA TELECONFERENCE

Scott Waterman, Valdez; David Ruiz, Member, Laborers Union 341; Larry Brink, Anchorage; Elsa Billingham, Anchorage; Wayne Stevens, President, Alaska State Chamber of Commerce; Steve Haagenson, Executive Director, Alaska Energy Authority; Jerry McCutcheon, Anchorage; Phil Steyer, Director, Chugach Electric Association

SUMMARY

SB 289 "An Act relating to home energy conservation and weatherization for purposes of certain programs of the Alaska Housing and Finance Corporation."

SB 289 was heard and HELD in Committee for further consideration.

CSHB 260(STA)

"An Act relating to a State Officers Compensation Commission and establishing how legislators, the governor, the lieutenant governor, and executive department heads shall be compensated; providing for an effective date by repealing the effective dates of certain sections of ch. 124, SLA 1986; and providing for an effective date."

CSHB 260(STA) was heard and HELD in Committee for further consideration.

SB 120 "An Act relating to the calculation and payment of unemployment compensation benefits; and providing for an effective date."

SB 120 was heard and HELD in Committee for further consideration.

SB 246 "An Act establishing a working group to analyze the potential of a hydroelectric power project on the Susitna River; and providing for an effective date."

SB 246 was heard and HELD in Committee for further consideration.

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SENATE BILL NO. 289

"An Act relating to home energy conservation and weatherization for purposes of certain programs of the Alaska Housing and Finance Corporation."

Co-Chair Hoffman, sponsor, announced that SB 289 was introduced to address energy needs throughout the state.

JOHN WEISE, STAFF, CO-CHAIR HOFFMAN, referred to a handout entitled "SB 289 Home Energy" (copy on file.) He explained page 1, the Housing Assessment Survey 2005. It was estimated that in 2005 there were about 277,000 housing units in Alaska. The percentage of older housing was increasing and the percentage of newer housing was decreasing. Households eligible for weatherization - 60 percent of median income - numbered about 45,000. The number of households that reported being drafty was about 45 percent or about half of all houses in Alaska.

Mr. Weise explained on page 2 that SB 289 would work with the Alaska Housing Finance Corporation (AHFC) to be more responsive to Alaskan's being impacted by high energy costs. The bill updates and expands the home energy efficiency and weatherization programs within AHFC.

Mr. Weise turned to page 3, weatherization. The focus is on energy efficient improvements and directs available funding to items that will save the most energy. Typical improvements include air sealing, insulating, and improving heating efficiencies.

Mr. Weise commented on page 4, Energy Efficiency and Weatherization Program. He related that after meeting with AHFC, a two-pronged approach was decided. The first was to focus on the weatherization program already in effect. It is a grant program available to Alaskans at the 60 percent median income level. This bill would raise the level to 100 percent median income. Low income Alaskans would continue to receive priority.

Mr. Weise reviewed a graph on page 5, Median Income Guidelines.

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Mr. Weise pointed out the impact of SB 289 as shown on page 6. In past years roughly \$4.8 million was spent a year and 600 households were helped. Funding at the 60 percent level would not meet Alaska's needs. The expanded program, which would request \$200 million, adjusts the median to 100 percent and would serve 17,400 households.

Mr. Weise turned to the second program as describe on page 7, Home Energy Rating Rebate Program. Homeowners would need to self finance or get a loan and an energy audit would be required. The rebate would be based on improved energy star ratings.

Mr. Weise detailed the Energy Star Ratings on page 8. Each step would equal an increase in the rebate. He shared expectations based on past research listed on page 9. There is an expected 30 percent reduction in home energy costs.

Mr. Weise summarized SB 289 by saying it would be an improved and more flexible process for AHFC to respond to rising fuel costs. Existing AHFC programs will be more responsive and more Alaskans will be helped.

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Mr. Weise summarized that the bill removes two programs no longer in existence. It adds energy efficiency, as shown on page 3, line 6 of the bill, and moves to 100 percent median income.

Co-Chair Stedman requested a synopsis of the program's beginnings and successes.

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DAN FAUSKE, CEO/EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, thought that the weatherization program has been around for about 20 years.

SCOTT WATERMAN, VALDEZ, reported that the weatherization program has been around since 1978. The home energy rebate program was in existence from 1992 to about 1995 when the funding ran out. It has not been reauthorized for refunding since then.

Co-Chair Stedman asked how many years it has been underfunded. Mr. Fauske replied that there is a line item in the capital budget for weatherization. It was generally funded between \$3.5 million and \$6 million. He reported that the weatherization is especially effective now with high oil prices. He detailed how weatherization results in savings to a homeowner.

Co-Chair Hoffman pointed out that housing construction is down at this time. Mr. Fauske explained that prior to the bill there was interest by home builders in home weatherization under the existing program. There is a great deal of excitement by home builders to implement an expanded program.

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KATE TROLL, EXECUTIVE DIRECTOR, ALASKA CONSERVATION ALLIANCE (ACA), testified in support of SB 289. She related that energy issues are a priority in ACA's goals, especially in light of the energy crisis in rural Alaska. Many states have implemented such energy programs and have provided savings to home owners. She shared statistics about savings from such programs and about the possible reduction of carbon emissions. She emphasized that the bill provides short-term assistance and she encouraged support, also, for HB 252, which deals with investing in renewable energy. She added that SB 289 would create more jobs.

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MEGAN WAGGONER, JUNEAU, testified in support of SB 289. She thought it was increasingly important for homes to be more energy efficient. She termed the subsidy an excellent incentive for people to start looking at their energy habits. She noted that rural communities would benefit the most from this legislation, but that all communities would be grateful.

MADELIN SIEDLER, JUNEAU, spoke in support of SB 289. She related that she belongs to a generation that is beginning to value responsible resource consumption, and home energy efficiency is a keystone issue in this movement. She

maintained that we have a duty to ourselves and to the future to conserve resources. She mentioned the financial benefits from this legislation. She called SB 289 a tremendous step in the right direction to a more sustainable energy future.

SB 289 was heard and HELD in Committee for further consideration.

AT-EASE: [3:21:06 PM](#)

RECONVENE: [4:01:20 PM](#)

CS FOR HOUSE BILL NO. 260(STA)

"An Act relating to a State Officers Compensation Commission and establishing how legislators, the governor, the lieutenant governor, and executive department heads shall be compensated; providing for an effective date by repealing the effective dates of certain sections of ch. 124, SLA 1986; and providing for an effective date."

REPRESENTATIVE MIKE DOOGAN, sponsor, reported that the bill is an attempt to restore a compensation commission modeled after a compensation commission in Alaska in the late 1970's, the last compensation system that worked. There are several repealers in the bill that would take out some aspects of current law. The bill would establish a commission of five citizen members all appointed by the Governor. One would be appointed from a list prepared by the Speaker of the House, one from a list provided by the President of the Senate, and the other three would be at large members. None of the members can have served in a position over which the commission has authority, for the previous four years.

Representative Doogan explained that the bill covers the Governor, the lieutenant governor, executive department heads, and legislators. It is staffed by the Department of Administration. There is a fiscal note for \$7,500. The law requires the commission to report at least every two years. It does not require that the report change compensation. The recommendations of the commission take affect unless they are specifically rejected by the legislature. The legislature retains authority over what happens to compensation because it does require a specific appropriation to fund it. This is not an arrangement peculiar to Alaska. He referred to a report in members' packets from the National Council of State Legislators.

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Senator Thomas asked about the legal services memorandum. Representative Doogan recalled that in the House State Affairs Committee, a question was raised whether or not this legislation should be a resolution. The letter is a legal opinion that it should be a bill.

Co-Chair Stedman asked if a sunset provision is needed. Representative Doogan hoped it would continue into infinity, if it works. If there are problems, it can be removed from statute.

Co-Chair Hoffman noted that the commissioner's recommendations would take effect unless rejected by the legislature. He wondered if that would include the first recommendation. Representative Doogan said it would.

Senator Elton asked if "executive department head" refers to commissioners. Representative Doogan thought that was the language needed to refer to commissioners.

Co-Chair Stedman noted the small fiscal note. He said he would refer the bill to a finance subcommittee made up of Senator Elton - Chair, Senator Olson, and Senator Dyson. He felt there was a relationship between the salary structure and some of the recent improprieties.

CSHB 260(STA) was heard and HELD in Committee for further consideration.

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SENATE BILL NO. 120

"An Act relating to the calculation and payment of unemployment compensation benefits; and providing for an effective date."

SENATOR JOHNNY ELLIS, sponsor, explained the intent of the bill. He reported that the bill is a result of a year-long stakeholders process conducted in the Senate Labor & Commerce Committee. There were numerous work sessions with business groups, labor advocates, Department of Labor experts, staff, and committee members.

Senator Ellis pointed out that a healthy unemployment insurance system benefits all Alaskans. It provides a shock absorber for businesses, individuals and families hit by economic change. It helps both businesses and workers. Alaskan workers stay in Alaska, ready for jobs when business picks up. Employers maintain a stable, ready pool of experienced workers.

Senator Ellis reported that Alaska's unemployment insurance system has been soundly managed. It has never depleted its

trust fund. Other states have depleted their trust funds during time of economic stress. Alaska's system has always been able to maintain payments, even during the severe 1986 oil price crisis.

Senator Ellis emphasized another important consideration - wage replacement. The unemployment insurance system seeks to replace roughly 50 percent of lost wages, a goal repeatedly confirmed by presidents and commissions over many decades in the United States. Alaska's wage replacement rate is dead last among all states. It was 25.8 percent in 2005 and is likely to be even lower today.

Senator Ellis pointed out that Alaska's benefit amount has fallen far behind wages. The maximum weekly benefit amount of \$248 is the fourth lowest in the nation. Alaska's maximum weekly benefit amount has not been adjusted since 1997. Eligible wages are capped at \$26,500. One third of Alaskan wage earners earn that much or more, but are limited to \$248 in weekly benefits.

Senator Ellis reported that tax rates are low. Now is the time to raise the benefit amount. Alaska's 2008 unemployment insurance tax rates for employers are the lowest in 28 years. There is room to raise the benefit - the \$370, which represents a restrained, compromised weekly benefit amount. CSSB 120 (L&C) would raise the average employer cost \$25 per employee from the 2008 level. The total out-of-pocket cost to employers would remain \$89 below 2007 level. The employee cost will rise \$37 per year over the 2008 amount.

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Senator Ellis said the Senate Labor & Commerce version represents a compromise. Benefits need to be raised. Employers view the system as too costly. The bill shifts costs from the employers to employees. Currently employers pay 80 percent, employees 27 percent. Under the bill, employers would pay 73 percent and employees would pay 27 percent. Alaska is one of only two states that actively mandate employee contributions. New Jersey is the other one. New Jersey's maximum weekly benefit is \$536; Alaska's is \$248. The bill would raise it to \$370.

Senator Ellis explained that the bill includes an automatic inflation proofing mechanism. It will help to avoid having to address the issue every year.

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Senator Ellis stressed that Alaska must enact the confidentiality statutes. The first eight sections of the bill are confidentiality related. Federal law requires all

states to protect unemployment insurance data by October 2008. Failure would mean the loss of \$19.1 million in federal funds to the state. Alaska businesses would pay an additional \$87 million in taxes if the statutes are not updated in regards to confidentiality.

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DANA OWEN, STAFF, SENATOR JOHNNY ELLIS, explained a handout entitled "The Case for Raising Alaska's Unemployment Benefit Amount" (copy on file.) He highlighted page 1, "Unemployment Insurance Maximum Weekly Benefit Amount by State," which illustrates where Alaska's weekly benefit falls in relation to other states. Alaska is 48<sup>th</sup>. New Jersey, a state that has an employee contribution to the unemployment insurance tax system, is third from the top.

Mr. Owen discussed page 2, "Alaska's Maximum Weekly Benefit - Unemployment Insurance 1966 - 2006." This stair step chart illustrates the history of raises in the unemployment insurance benefit amount. The rate of \$248 was achieved in 1997. This is the longest stretch, since 1966, of not raising rates.

Mr. Owen interpreted the table on page 3, "Alaska's Unemployment Insurance - Weekly Benefit Amount Schedule." This chart shows the effect of the 1997 amendment and the range of amounts earned under the unemployment insurance system.

Mr. Owen reported that page 4, "Alaska Unemployment Insurance - Recipients by Weekly Benefit Amount, 2000." It illustrates that the largest portion of unemployment insurance recipients are maxed out at \$248 weekly benefit.

Mr. Owen explained the graph on page 5, "Average Wage Replacement Rates - By State, 2005". Alaska is at the bottom of the list.

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Mr. Owen depicted "Replacement Rates - Western States, 2005" on page 6. He pointed out that Alaska is the lowest at 25.8 percent.

Mr. Owen showed on page 7 how "The Target Gets Farther Away - Alaska, 1987 to 2007." The amount of benefit diminishes in relation to the amount of wage it replaces.

Mr. Owen discussed the "Average Weekly Benefits Amount (AWBA) as a Percentage of Average Weekly Earnings - 2006."

Mr. Owen noted that the chart on page 9, the "Estimated Annual Unemployment Insurance Employee Tax Cost with Maximum

Weekly Benefit Amount Increased, Tax Share Ratio Changed, and Minimum Qualifying Wage Raised, Effective January 2009," is what is presented in the Labor and Commerce version of the bill. The employee rate would increase from \$157 to \$194 by the time the rate phases in, in 2013. This is a \$37 increase in the employee payment. The graph on page 10 depicts "Estimated Annual Cost per Worker for Average Employer with Unemployment Insurance Maximum Qualifying Wage Raised, effective January 2009. In 2007 the estimated annual cost per worker for the average employer was \$584. In 2008 that number drops dramatically to \$470. It continues to decline until 2010 when the effect of SB 120 comes into play. When it is fully in effect in 2013, the cost of \$495 is still below what employers were paying last year.

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Senator Ellis pointed out that business groups requested that this bill be phased in. He summarized that the bill is long overdue, is a reasonable well-crafted compromise, and is nearly cost neutral. This is the right time; the rates are the lowest in 28 years. It is a reasonable compromise.

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DAVID RUIZ, MEMBER, LABORERS UNION 341, Anchorage, testified in support of SB 120.

LARRY BRINK, ANCHORAGE, testified in support of SB 120.

ELSA BILLINGHAM, ANCHORAGE, testified in support of SB 120. She shared a personal story regarding unemployment benefits.

WAYNE STEVENS, PRESIDENT, ALASKA STATE CHAMBER OF COMMERCE, testified in support of SB 120. He included a letter of support in the members' packets (copy on file.)

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Senator Elton referred to the chart that looks at past costs of the employee to the employer. The bill reflects a savings to the employer. He wondered if the figures were inflation adjusted. Mr. Stevens said he did not know.

Mr. Owen thought they were nominal dollars and did not include adjustment for inflation. Senator Elton concluded that the savings to the employer are even greater.

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TOM BRICE, AGENT, ALASKA DISTRICT COUNCIL OF LABORS, testified in support of SB 120. He mentioned a concern

about the perception that the employee will have to buy the increase, going from 20 percent to 27 percent.

DON ETHERIDGE, ALASKA AFL-CIO, testified in support of SB 120.

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Co-Chair Stedman asked if anyone opposed the bill.

Senator Ellis reported that the National Federation of Independent Businesses included a letter in the members' packets which stated opposition to the bill. There are others that don't believe in unemployment insurance or that it should be paid 100 percent by the employer. He shared discussions regarding the phase-in aspect of the bill.

Co-Chair Stedman asked how long the groups worked on the bill. Mr. Owen said about a year. Senator Ellis added that he has received a letter from AGC stating some support for the bill.

SB 120 was heard and HELD in Committee for further consideration.

AT-EASE: [4:44:40 PM](#)

RECONVENE: [4:47:56 PM](#)

SENATE BILL NO. 246

"An Act establishing a working group to analyze the potential of a hydroelectric power project on the Susitna River; and providing for an effective date."

Co-Chair Stedman reported that the bill deals with an issue the committee has been struggling with for several years.

Senator Joe Thomas, sponsor, explained the purpose of the bill. SB 246 will direct the Governor to have the Alaska Energy Authority (AEA) analyze the hydroelectric potential of the Susitna River. The AEA will review and update studies done in the past, evaluate cost analysis, financing options, current and future demand, and other critical issues to determine the feasibility of the project. The Governor will submit a final report to the legislature not later than July 1, 2010.

In recent years, Alaskans have seen their energy costs skyrocket. These ever-rising costs and uncertain supplies not only make it difficult for Alaskans across the state to make ends meet, but also have an adverse impact on economic growth.

The energy produced by a hydroelectric facility is predictable, stable, clean and low cost. Currently, the Bradley Lake hydroelectric dam produces energy for the Railbelt at just \$.05 per kWh, far below the \$.176 per kWh that the Interior is currently paying.

In addition to these factors, the majority of our combustion turbine power plants along the Railbelt are over 30 years old and all will need retrofitting and replacement that will cost between \$1 billion and \$2.5 billion over the next ten years. Once these replacements begin, we will continue with the same rising energy costs, fluctuating operating expenses, and high polluting facilities that the citizens of the state have experienced in the past.

Twenty-five years ago, when a dam along the Susitna River was last looked at, Cook Inlet Gas cost \$.21 per million cubic feet, the population and energy demand along the Railbelt was substantially less than today, and energy costs were nowhere near what they are today. He said he believes all these factors, along with environmental and long-term energy considerations, merit a reopening of the Susitna discussion.

Nothing is as comprehensive of an approach to reducing costs, emissions and dependence on finite, non-renewable energy production for the Railbelt and adjacent areas as a Susitna Dam project.

Senator Thomas referenced the high price of oil and gas. He noted that the fiscal note is broken down according to tasks with the objectives clearly laid out. He encouraged the committee to support the passage of SB 246.

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Co-Chair Stedman asked if this is a broader reaching energy analysis scope, farther reaching than just the Susitna project. Senator Thomas agreed that it was not limited to a Susitna study. Co-Chair Stedman asked what the comparative energy supplies are: a bullet line, imported LNG, gas line strikes in Cook Inlet, coal, etc. Senator Thomas added other potential hydro in the Railbelt.

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Senator Elton wondered if the Railbelt Energy Fund was more appropriate as the funding source. Senator Thomas agreed that the fund would be appropriate. Co-Chair Stedman noted that it also includes a look at the transmission lines. Senator Thomas agreed that it did look at updating bottlenecks. Co-Chair Stedman thought the committee should look further into the Railbelt Energy Fund.

Co-Chair Stedman noted the fiscal note contains \$2.7 million in FY 09 followed up by \$1.5 million in FY 2010.

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STEVE HAAGENSON, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, spoke of the benefits of hydroelectric energy projects. He suggested identifying the potential savings and benefits from using hydroelectric energy. He testified in favor of SB 246.

Co-Chair Stedman offered the numbers of \$10 billion to \$15 billion for cost of the Susitna hydroelectric project.

JERRY MCCUTCHEON, ANCHORAGE, testified against SB 120.

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PHIL STEYER, DIRECTOR, CHUGACH ELECTRIC ASSOCIATION, testified in support of SB 246. The Railbelt is heavily dependent on natural gas from the Cook Inlet Basin to generate electricity. Electricity from the three current hydro projects is the least expensive, but it is at its limit. As the price of natural gas has risen, so has the cost to the public. Chugach is looking for a Susitna hydroelectric project for the Railbelt.

Senator Thomas concluded by saying that this was a much-needed project. He thought that future gas should not be used to solve energy needs, but rather should be sold and exported. He suggested that there is a strong need to go forward with this bill.

SB 246 was heard and HELD in Committee for further consideration.

#### ADJOURNMENT

The meeting was adjourned at 5:07 PM.