

SENATE FINANCE COMMITTEE
July 24, 2008
9:08 a.m.

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at [9:08:17 AM](#).

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Randall Ruaro, Special Assistant, Office of the Governor;
Karen Rehfeld, Director, Office of Management and Budget;
Stacy Kraly, Assistant Attorney General, Department of Law;
Jerry Burnett, Director, Division of Administrative Services, Department of Revenue

PRESENT VIA TELECONFERENCE

None

SUMMARY

SB 4002 "An Act establishing the Alaska resource rebate program and relating to the program; and providing for an effective date."

SB 4002 was heard and HELD in Committee for further consideration.

SB 4003 "An Act making supplemental appropriations to the Alaska Energy Authority for power cost equalization; making special appropriations to the Department of Revenue and to the Department of Health and Social Services for the Alaska resource rebate program; making a special appropriation to the Department of Revenue for the payment of certain shared taxes relating to aviation fuel; and providing for an effective date."

SB 4003 was heard and HELD in Committee for further consideration.

SENATE BILL NO. 4002

"An Act establishing the Alaska resource rebate program and relating to the program; and providing for an effective date."

9:09:06 AM

Co-Chair Stedman commented on the problem of the high cost of energy in Alaska. SB 4002 and SB 4003 address this issue in the form of a rebate.

RANDALL RUARO, SPECIAL ASSISTANT, OFFICE OF THE GOVERNOR, related that SB 4002 is an important bill for Alaskans because it would allow the state to share part of its wealth on a one-time basis, with a \$1,200 payment to Alaskan residents. There are three main advantages to the bill. All Alaskan residents would share equally regardless of where they live. He referred to Article 8 which states that Alaskans own the state's resources.

Mr. Ruaro said that the second advantage of the bill is that the rebate could be paid quickly. The third important point is that the bill includes payments to veterans and holds them harmless from financial offsets.

9:13:10 AM

Mr. Ruaro noted a disadvantage of the bill in that the payments are taxable income; however, they would not reduce benefits from federal programs.

Senator Huggins asked for a definition of resident. Mr. Ruaro related that the residency definition for the permanent fund dividend is being used. Also used is a definition for those who have recently moved to Alaska and can prove residency.

Senator Huggins asked if any non-residents would be included. Mr. Ruaro said the second group is not eligible for a PFD and have not applied for a PFD, but have lived in Alaska for a six-month period and intend to remain.

9:16:38 AM

Senator Olson inquired what options those who qualify for public assistance have. Mr. Ruaro replied that those individuals could elect not to receive the rebate for various reasons.

Co-Chair Stedman asked about the title "Alaskan Resource Rebate". He also wanted to know if the program was for energy relief or if it was a way to pay excess revenue to citizens. Mr. Ruaro replied that at the end of the fiscal year there was an excess of \$740 million and spending priorities had been met in FY 08. The basis of the bill is to share the wealth in the form of a rebate. There are no restrictions as to how the rebate can be spent. It is expected that many will use the funds to pay for energy-related costs.

[9:20:32 AM](#)

Co-Chair Stedman recalled years of building up the capital budget, catching up on deferred maintenance expenses, and then years to increase savings. He requested information as to why the direction has changed.

Co-Chair Stedman noted the passage of a bill directing the state toward a long-term fiscal plan. He wondered how this bill fits into that plan.

[9:22:01 AM](#)

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, said the administration is committed to producing a long-range fiscal plan enacted in HB 125. She spoke of Department of Revenue goals and the plan to put excess dollars into savings, but also to allow for future capital expenses. She said she could not detail a picture of that today. She described the philosophy behind the bill, which is to help Alaskans meet high energy costs now, while working on a long-term solution to reduce statewide energy costs.

Co-Chair Stedman thought that dispersing excess savings was different than trying to help with heating homes.

Senator Thomas wondered how the rebate changed from an energy rebate to a resource rebate. He wondered why only the permanent fund list was used. He questioned why someone who has only lived in Alaska six months should qualify for the rebate.

[9:26:05 AM](#)

Mr. Ruaro addressed the question regarding the renaming of the rebate. He recalled that the basis of the bill to share the wealth with Alaskans has always been present. In an earlier effort, the focus was directed toward energy-only expenses. A debit card approach would have worked for 90 percent of Alaskans, but some communities would not be able to use debit cards, especially in rural Alaska. The idea of

payment to utilities brought up tax issues. The underlying principle to "share the wealth" has remained.

Mr. Ruaro spoke to the approach to use only the PFD list. He said he is not opposed to that method. Creating the second group of eligible persons was designed to accommodate veterans and others whose benefits would be offset by a rebate.

[9:29:46 AM](#)

Senator Thomas did not disagree with that idea. He said that now, however, people no longer see it as an energy relief payment. There are questions of fairness now that it is not considered energy relief. He gave, as an example, a family of eight receiving eight rebates, which have nothing to do with the amount of energy consumed. There are many concerns about fairness.

[9:32:11 AM](#)

Senator Huggins agreed with the concerns brought up by Senator Thomas. He recommended in the future that more attention be paid to defining the rebate before the media release is offered. The messages were confusing. He inquired who in the administration was working on the bill.

Mr. Ruaro listed those working on the bill: himself, Mr. Burnett, Ms. Rehfeld, representatives from Health and Human Services, and employees of the Division of Finance. Senator Huggins asked if there are any "energy people" working on it. Mr. Ruaro said that Steve Haagenson, Executive Director, Alaska Energy Authority, is working on the bill. Senator Huggins suggested including legislative personnel in the mix.

[9:34:44 AM](#)

Senator Elton referred to page 3, line 1, of the bill where it talks about if a person is eligible if they were voluntarily and physically present in the state when they applied for the rebate. He wondered if that excluded military personnel, which he did not classify as being present voluntarily. Mr. Ruaro said the intent was to allow military who qualify for the PFD to be eligible, as well as those overseas. He noted a pending amendment that clears up the ambiguity.

Senator Elton referenced page 5, line 14, of the bill. He asked if the bill establishes a mandate directly to local control; to political subdivisions as well as to native organizations. He wondered why that was necessary.

STACY KRALY, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW, related that the purpose of the part of the bill Senator Elton was referring to was to address potential hold harmless issues. The hold harmless provisions included in the bill address public assistance and veteran benefits. The intent was to avoid new programs that would be developed in order to qualify for this rebate.

Senator Elton believed that those decisions are best made by municipalities. Ms. Kraly responded that the intent was to ensure that municipalities did not create new needs-based programs. Senator Elton said the premise of the bill is that it is not an on-going program and the payment would go out in September, therefore that kind of language is unnecessary. Ms. Kraly said it was a stop gap measure.

[9:40:39 AM](#)

Senator Elton assumed that the bill was put together with a consideration for risk assessment. One potential risk is unintended consequences. He voiced concern of consequences in Washington, DC, where it could be said that Alaska is getting rich off of its resources. There could be ramifications. He gave an example. He questioned if there was a possibility for a backlash.

Mr. Ruaro said that Senator Ted Stevens thought that members of Congress would see it as a positive that the state is assisting its citizens in a time of energy crisis. It is possible that it could be seen the other way.

Senator Olson asked if Senator Stevens is in favor of this proposal. Mr. Ruaro said Senator Stevens supported it at a press conference in July.

[9:44:58 AM](#)

JERRY BURNETT, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF REVENUE, indicated that Senator Stevens was in favor of the rebate.

Co-Chair Stedman spoke of the legislature's protection of the permanent fund. He wondered if the philosophy had changed. Mr. Ruaro didn't think there was a shift. He believed that this was a one-time event.

[9:46:33 AM](#)

Senator Huggins reported that there are 620,000 permanent fund recipients. He wondered if this rebate could be included in the permanent fund payment.

Mr. Burnett said it is a matter of timing. It could be included in the PFD amount; however, the intent is to do an earlier distribution in August or September.

Senator Huggins asked how much it would cost. Mr. Burnett said the cost to send out the check would be about \$500,000. Senator Huggins questioned if normal postage is the correct way to do it. Mr. Burnett clarified that expenses include computer services, check stock, envelopes, and so forth. Costs have been fully allocated.

[9:49:20 AM](#)

Co-Chair Stedman called it a resource rebate, not an energy rebate. He asked why the rebate should be shared with those who moved to the state seven months ago. Mr. Ruaro said the intent was to find a mechanism to allow long-time Alaskans who do not apply for the PFD to qualify for the rebate.

Co-Chair Stedman asked if the residency requirement is six months or a year. Mr. Ruaro said six months - with an intent to remain in Alaska.

[9:51:53 AM](#)

Senator Thomas asked if there was a legal reason to change from an energy rebate to the current resource rebate. He suggested tax issues might have been the reason. He inquired about the considerations used for qualification. He questioned the language on page 2, line 25, "is not ineligible".

Mr. Ruaro said difficulties were found with tax issues regarding payments to utilities and co-ops, which are exempt under federal law if 85 percent of their income derives solely from membership payments.

AT-EASE: [9:54:24 AM](#)

RECONVENE: [9:59:52 AM](#)

Mr. Ruaro continued to respond to questions by Senator Thomas. He explained that outside income could count against the tax exempt status of co-ops. He explained that residency eligibility of 6 months was selected in order to stay within the legal boundaries of a residency period.

Mr. Burnett addressed the question regarding page 2, line 25. He explained that the language provides that incarcerated felons and multiple misdemeanants are not eligible for a PFD.

[10:02:06 AM](#)

Senator Thomas asked if reducing costs to cooperatives and electrical suppliers was reviewed as a supplement, as opposed to providing support to an across-the-board situation.

Mr. Ruaro could not recall looking at the specific mechanism outlined by Senator Thomas.

[10:03:39 AM](#)

Senator Elton referred to page 5, line 14. He concluded that the rebate would apply only to past actions by a municipality, not what it might do in the future, as far as implementing social service programs.

Ms. Kraly explained that, in terms of the public assistance benefit arena, what is considered resource or income for purposes of eligibility is wide-ranging. The intent is to limit the ability to use this as income for purposes of eligibility. It limits the ability of programs to calculate benefits as income which would render individuals ineligible for certain programs.

[10:05:41 AM](#)

Senator Elton questioned why something that has been already done would be voided.

Ms. Kraly clarified that the intent was to guarantee hold harmless provisions. Senator Elton felt the provision needed further review.

Senator Elton observed that statute currently prevents the use of the Governor's picture on permanent fund dividend checks. He questioned if the administration would be supportive of prohibiting a picture of the Governor on the energy check. Mr. Ruaro could not respond.

[10:08:26 AM](#)

Senator Huggins asked what legal challenges the program might present in the future. Ms. Kraly could not address the legal risks.

Senator Huggins inquired about the size of the pool of those that do not apply for a PFD, but would be eligible.

Mr. Ruaro reported that there are approximately 400 veterans, and spouses and children of veterans that receive VA benefits.

Senator Huggins asked how the PFD and the rebate would be handled differently as they apply to veterans.

Mr. Ruaro explained that federal statutes and rules affect veterans' benefits. In the PFD, there is no hold harmless provision for veterans. The rebate bill does extend hold harmless provisions to veterans. The reduction would occur by federal law, but the state would step in and pay the difference, so that they would receive the entire benefit.

[10:12:27 AM](#)

Senator Olson asked if the benefit would be subject to garnishing. Mr. Burnett noted that it would not be subject to garnishment.

Co-Chair Stedman asked if thought had been given to the resulting workload due to appeals. He observed the amount of inquires received by legislators for similar issues.

Mr. Burnett acknowledged the concern and that there would be additional appeals. He did not know how the cost of the appeals would be absorbed.

[10:15:19 AM](#)

Co-Chair Stedman observed that changes in oil taxation resulted in raising the marginal tax rate of oil companies. He asked how he could reconcile the additional tax burden to industry. He suggested using the revenue to help the state build roads, airports, hospitals, and support education and transportation through the state appropriation process, vs. increasing a tax burden on the industry and then distributing a check to each resident.

Ms. Rehfeld acknowledged that a balance needs to be reached between infrastructure, industry, and savings. Both opportunities exist and the philosophy is not dissimilar.

[10:18:02 AM](#)

Senator Thomas brought up the concept of changing from energy relief to a fair distribution rebate. He voiced concern about page 3, line 5: "intends to maintain a home in the state." He maintained that the rebate does not encourage energy conservation.

Mr. Ruaro observed that the basis of the payment is to share state resources. The difference is that it was determined to be difficult to restrict the support to energy expenses. There are taxation issues. He pointed out that the funds could be used to purchase more efficient fuel systems, as well as paying electric bills. He acknowledged that page 3, line 5, could be reworked to stress that residency must be maintained, not just a home.

Senator Thomas added that there are already programs that pay directly for heat, particularly in rural areas. He suggested that the rebate could have been incorporated into an existing program.

[10:23:21 AM](#)

Senator Huggins observed that on page 3, lines 27-28, the language "non-residents of the "country" might not be accurate.

Mr. Burnett clarified that under the dividend program and this program, individuals that are not citizens of the United States, but are residents of the state, would receive the benefit.

Senator Huggins questioned the popularity of the program and asked how \$1,200 was selected.

[10:25:19 AM](#)

Co-Chair Stedman noted that during the regular session, previous bills dealing with an energy rebate were not acted upon. He wondered if that was a factor when designing this bill.

Ms. Rehfeld explained that discussions began with a \$100 per month debit card, which then transferred to \$1,200 a month. She did not think the previous bills were administration bills.

SB 4002 was heard and HELD in Committee for further consideration.

[10:27:06 AM](#)

SENATE BILL NO. 4003

"An Act making supplemental appropriations to the Alaska Energy Authority for power cost equalization; making special appropriations to the Department of Revenue and to the Department of Health and Social Services for the Alaska resource rebate program; making a special appropriation to the Department of Revenue for the payment of certain shared taxes relating to aviation fuel; and providing for an effective date."

Ms. Rehfeld noted that SB 4003 was the appropriation legislation for SB 4002. The legislation appropriates nearly \$820 million, \$800 million of which is for the one-time payment to eligible individuals for the resource rebate program. It does include the associated administrative costs. There is also \$10.7 million included in the hold harmless provisions.

Ms. Rehfeld noted there is also a request for \$9.6 million for the Power Cost Equalization (PCE) program. Of that amount, \$600,000 is to fully fund the FY 08 appropriation and cost for PCE so there would be no proration required. The Alaska Energy Authority has estimated a potential \$9 million shortfall in the PCE program for FY 09 based on estimates of increased fuel costs.

Ms. Rehfeld concluded that an additional \$150,000 would be requested to hold harmless municipalities that have municipal owned airports.

[10:29:51 AM](#)

Senator Elton asked for clarification about the interplay between SB 4002 and SB 4003. In SB 4002, Section 1 provides that "subject to appropriation and availability of funds for the program, individuals eligible for the program may receive a payment in the amount of \$1,200". In SB 4003, on page 2, line 22, it says, "the sum necessary, estimated to be at \$800 million". He inquired which bill was primary.

Mr. Burnett said that the \$1,200 would go to everyone. Should the legislature chose a different amount, it would be pro-rated. As the bills are currently written, it would allow for \$1,200 to each person.

[10:32:29 AM](#)

Senator Elton thought that in January a supplemental may be required. Mr. Burnett said the bill, as currently written, would allow for spending beyond \$800 million.

Senator Huggins posited a scenario whereby fuel costs remain the same and next July the expectation by Alaskans is that they receive another rebate.

Ms. Rehfeld did not disagree with the scenario, but emphasized that the bill is a one-time payment.

Senator Huggins asked how the administration will keep this to one year. Ms. Rehfeld hoped that the current legislation would provide some relief, but she could not say what might happen in the future. Senator Huggins suggested that an expectation is being created.

[10:36:08 AM](#)

Senator Olson asked about page 3 regarding municipality airports. He wondered who would be the beneficiaries of the subsection. Mr. Burnett reported that taxes are not shared with anyone besides municipal airports in this program. The largest amount to a municipality is to Juneau. Senator

Olson wondered if the bias is towards municipal or rural airports. Mr. Burnett replied that Fairbanks and Anchorage have state-owned airports. This program is designed for sharing with municipal airports around the state.

Co-Chair Stedman wondered if it was a resource rebate or an energy rebate. He questioned if there should be a trigger amount before the state steps in to help. Ms. Rehfeld had not heard of information regarding that.

Co-Chair Stedman wondered about the ramifications when this rebate is discontinued. Ms. Rehfeld understood the concern. She reiterated that the rebate is intended to be a one-time payment.

[10:39:52 AM](#)

Senator Elton referenced the section on aviation tax and requested more information about how much revenue would be lost. He did not see a problem with the benefits from a tax suspension. He wondered how much of a benefit the commercial industry would be getting.

Mr. Burnett said there is no way to know who is purchasing the fuel.

Senator Thomas believed that the price of oil was not going to go down. He thought the programs should be in place for 3 - 5 years.

SB 4003 was heard and HELD in Committee for further consideration.

[10:45:22 AM](#)

Co-Chair Stedman spoke of discussions on longer-term solutions to the energy problems in Alaska.

ADJOURNMENT

The meeting was adjourned at 10:45 AM.