

SENATE FINANCE COMMITTEE
July 25, 2008
11:45 a.m.

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at [11:45:33 AM](#).

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Bert Stedman, Co-Chair

ALSO PRESENT

Jay Livey, Staff, Senator Hoffman; Ron Kreher, Chief of Field Operations, Division of Public Assistance, Department of Health and Social Services; David Teal, Director, Legislative Finance Division; Senator Gene Therriault

PRESENT VIA TELECONFERENCE

Sarah Fisher-Goad, Deputy Director of Operations, Alaska Energy Authority, Department of Commerce, Community and Economic Development

SUMMARY

SB 4005 "An Act authorizing, as a temporary rebate of state resources to certain state residents, payments to assist in meeting heating costs under the federal and state heating assistance programs; and providing for an effective date."

SB 4005 was heard and HELD in Committee for further consideration.

SB 4006 "An Act amending the power cost equalization program, repealing the exclusion from eligibility for power cost equalization for certain power projects that take their power from hydroelectric facilities, and amending the definition of 'eligible electric utility' as it applies to the power cost equalization program and the grant program for small power projects for utility

improvements; and providing for an effective date."

SB 4006 was heard and HELD in Committee for further consideration.

SENATE BILL NO. 4005

"An Act authorizing, as a temporary rebate of state resources to certain state residents, payments to assist in meeting heating costs under the federal and state heating assistance programs; and providing for an effective date."

11:46:25 AM

Co-Chair Hoffman pointed out that current oil prices have approached \$130 per barrel. At that price the state would receive \$3.6 billion. Alaska has benefited greatly by high prices of oil; however, Alaskans are facing extremely high costs of energy. The Governor has suggested that the legislature come up with a temporary solution to this problem. With this in mind, two pieces of legislation have been introduced. One solution would add to the Power Cost Equalization Program (PCE), and the second would subsidize home heating expenses. The problem of energy costs is difficult due to the variety of methods of heating in Alaska. It is the legislature's duty to find a fair and equitable way of addressing this problem.

Co-Chair Hoffman stated that the purpose of the meeting was to have an overview of two bills, SB 4005 and SB 4006.

11:50:19 AM

JAY LIVEY, STAFF, SENATOR HOFFMAN, explained that SB 4005 deals with the high cost of heating oil in rural Alaska. The first section increases the rates paid by the Low Income Heating and Energy Assistance Program (LIHEAP). The fiscal note is based on the assumption that the current rates being paid will triple.

Mr. Livey related that the second section of SB 4005 says that the cutoff for eligibility would be 350 percent of poverty level, instead of the current level of 225 percent. That would move the income level for a family of three to around \$90,000.

11:52:30 AM

Mr. Livey explained that LIHEAP has been operating in the state for many years through the Department of Health and Social Services. He related how the formula works. It takes into account the community in which the client lives,

the type of house, income, disabilities, age, and the type of fuel used. The more money the client pays for fuel, the more the relief is. Another reason LIHEAP works for this program is that it provides assistance statewide. LIHEAP is an efficient delivery system and a way to provide timely relief to Alaskans.

Mr. Livey reminded the committee that the money would not go to individuals, but rather to vendors.

Co-Chair Hoffman requested an explanation of the intent of the LIHEAP energy rebate program, which is no longer a low income program.

[11:56:25 AM](#)

Mr. Livey clarified that the new LIHEAP program would provide assistance to a family at 350 percent of poverty level, which is not a poverty program. The formula that LIHEAP uses is pro-rated based on income.

Senator Olson requested information about rural vendors that do not take credit cards. Mr. Livey said that once the application is approved and the amount of relief determined, the fuel account would be drawn down. No money would change hands.

Senator Olson hoped there would not be an interruption of service due to lack of technology. Mr. Livey deferred to the Department of Health and Social Services to explain that process.

[11:59:52 AM](#)

Mr. Livey continued to say that approximately an additional 22,000 families would be eligible.

Co-Chair Hoffman requested price information. Mr. Livey highlighted the fiscal note of \$75 million.

Co-Chair Hoffman commented on the price tag of this bill, which is \$75 million, as compared to the Governor's bill, which is \$700 million. SB 4006, Power Cost Equalization, also has a price tag of \$75 million.

[12:01:37 PM](#)

Senator Thomas questioned the expansion of the LIHEAP program. He gave examples of different sized families and what they would qualify for. He spoke of resource rebate inequity based on family size.

[12:04:28 PM](#)

Mr. Livey shared two criteria. The first is that 350 percent of poverty is used to determine eligibility based on the number of individuals in a family. Once a family has been determined eligible for the program, the amount of benefit received is determined by a series of criterion used to decide how much the family is entitled to.

Senator Thomas requested a copy of that information.

[12:06:00 PM](#)

Senator Dyson asked if LIHEAP funds are taxable. Mr. Livey said they were not, nor were they subject to hold harmless.

Senator Dyson inquired about "degree heating days" as one of the criteria. Mr. Livey deferred the question to the Department of Health and Social Services.

Co-Chair Hoffman brought up another area of concern - dependency on the program, similar to the revenue sharing program. He pointed out that as income rose, benefits were eliminated. He suggested considering that aspect if the program continues beyond one year. He thought there were ways to give protection to indicate that this is not an on-going program.

[12:10:01 PM](#)

Senator Huggins asked how senior centers would be dealt with under this program. Mr. Livey thought that this program would pay for energy so long as no one else does, such as a grant or non-profit agency.

Senator Huggins spoke of long-distance commuters and thought that mass transportation could be a solution, but could cause problems in the long run. He voiced concern about the use of money based on resources that all of the people own and "means testing".

Co-Chair Hoffman mentioned the resource rebate as another approach toward addressing high energy costs.

Senator Huggins agreed, especially in that it is a temporary solution. Co-Chair Hoffman suggested a sunset date on the bill. The intent at this time is to get Alaskan's immediate relief. Other facets of energy costs can be looked into at a later date.

[12:14:31 PM](#)

RON KREHER, CHIEF OF FIELD OPERATIONS, DIVISION OF PUBLIC ASSISTANCE, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, detailed the components of the LIHEAP program. It is one aspect of the heating assistance programs and is 100 percent

federally funded. It serves households at 150 percent below poverty level and is intended to offset heating costs for low income families. The program is operated in conjunction with nine tribal organizations. Last year \$10,700,000 was received by the federal government for LIHEAP. He listed the number of households served - 15,000. He described the kinds of people served. He listed residency requirements and how payments must be used. Vendor payments are the vehicle for covering the costs.

[12:16:50 PM](#)

Mr. Kreher identified the community home heating points used to determine eligibility. These points, plus income, plus the dollar amount available determine the payment to each household. The Alaska Heating Assistance Program created through HB 152 serves households between 150 and 225 percent of poverty, outside of the federal program. He estimated about 22,250 households will qualify for this program.

[12:19:20 PM](#)

Co-Chair Hoffman asked about tax implications of the current and proposed programs. Mr. Kreher reported that the current program payments are not taxable. The Department of Law is researching the implications of the proposed higher levels.

Co-Chair Hoffman asked when that information would be available. Mr. Kreher replied that he did not know.

Co-Chair Hoffman asked if the program the Governor is proposing is taxable. Mr. Kreher said it was.

[12:21:14 PM](#)

Senator Huggins asked how to address the profile of a household that lives "off the grid" and generates heat and electricity from fuel oil. Mr. Kreher did not know. The Alaska Heating Assistance Program only addresses heating costs, not utility costs.

Senator Huggins spoke of the high cost to be connected to the grid.

Co-Chair Hoffman thought it was an excellent example of an item that requires looking at on a long-term basis in order to address energy costs for all Alaskans.

[12:23:15 PM](#)

Senator Elton asked if a person has to apply on an annual basis for either program. Mr. Kreher said they would. Senator Elton assumed that those at the higher end of income limits may be less inclined to participate than those at 150

percent. Mr. Kreher agreed. The majority of households now served are below the federal poverty level. Many Alaskans have an aversion to public assistance.

[12:25:20 PM](#)

Senator Elton noted that those who have not participated in LIHEAP in the past are not limited to one vendor. Mr. Kreher said that was correct.

Senator Thomas asked if LIHEAP is taxed. Mr. Kreher said currently LIHEAP is not taxed. He reiterated that the Department of Law is looking into whether the new program would be taxed. Senator Thomas asked if both vendors and individuals can receive payments. Mr. Kreher said yes. In some instances direct payments are made to individuals. Senator Thomas asked if the intention is for energy assistance. Mr. Kreher agreed.

[12:27:08 PM](#)

Senator Thomas requested an explanation of the income guidelines in a handout entitled "2008 Poverty Guidelines for Alaska Income Guidelines as Published" (copy on file.) Mr. Kreher detailed the annual guidelines. He could not be specific about the amount of rebate because of not knowing the other factors.

Co-Chair Hoffman added that the information could be found on the web.

[12:29:24 PM](#)

Senator Thomas summarized that assistance is based on a point system.

Mr. Kreher gave an example of a household in Anchorage that qualifies for eight points due to location. If the household had three bedrooms, the 8 points is multiplied by 1.3. For every child under 5, a point is added. If the household had zero income, it would receive 100 percent of the points, or 10 points. Depending on the availability of funding, a dollar amount would apply against the points. Last year that amount was \$85. That household would have been eligible for a grant of \$850.

Senator Hoffman asked for an explanation of expedited cases.

Mr. Kreher explained that an expedited case is one that has demonstrated an urgent need for assistance such as facing a cut-off of utilities or heating costs greatly exceeding income.

Mr. Livey referred to the numbers for Anchorage in the document and pointed out an error.

Senator Hoffman said it was evident that the program is broad based and addresses issues uniformly throughout the state.

Mr. Kreher stated that the funds would be distributed fairly throughout the state. He noted that the state shares its tribal block grant with nine tribal organizations.

[12:33:51 PM](#)

SENATE BILL NO. 4006

"An Act amending the power cost equalization program, repealing the exclusion from eligibility for power cost equalization for certain power projects that take their power from hydroelectric facilities, and amending the definition of 'eligible electric utility' as it applies to the power cost equalization program and the grant program for small power projects for utility improvements; and providing for an effective date."

Senator Hoffman surmised that the power cost equalization program would be a two-year program and might possibly be considered for implementation on a long-term basis. The cost of the proposed program is about \$75 million, as was LIHEAP. The Governor's proposal was for about \$700 million. These two pieces of legislation are much smaller "ticket items" and address the high costs of heating oil and electricity throughout the state.

Mr. Livey touched on several major issues in the bill. He stated that this piece of legislation addresses the high cost of electricity. He pointed out that this bill no longer makes a geographical assumption of eligibility of a utility. It allows all utilities that provide electricity that costs more than 1.2 percent above the average rate in Anchorage, Fairbanks, and Juneau, which is about 15.4 cents per kilowatt hour.

[12:38:00 PM](#)

Mr. Livey said that the bill proposes raising the maximum level from .525 cents to \$2.00 so that more relief goes to more Alaskans. He pointed out that the current law only provides relief for 6000 kilowatt hours per year. The bill proposes to change the distribution by season so that during winter months more relief would be available.

[12:41:05 PM](#)

Senator Elton noted an unintended consequence of the formula basing costs on Juneau, Fairbanks, and Anchorage electrical use when something extreme happens like the Snettisham avalanche which caused Juneau's power costs to skyrocket. PCE reimbursement under that scenario would be less. He wondered if the bill's new formula addresses this problem.

Mr. Livey said he understands that PCE cost is based on filings made with the Regulatory Commission of Alaska in which utilities describe their costs. If an event takes place and costs for the utility increase, those costs are acknowledged by the rate setting system.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, explained that the case in Juneau would affect PCE; however, it was a fairly brief period of high rates and the impact would be spread over several years and is a weighted average. He said the floor would be more influenced by the fact that Anchorage uses much more fuel than Juneau and Fairbanks uses diesel for 47 percent of its power.

Senator Elton stated appreciation that this legislation is based on cost rather than location. He assumed that if there was a temporary spike in cost in an urban area it would be accommodated under the new PCE formula.

Mr. Teal said that the base rate would have been adjusted under the old formula as well.

[12:45:57 PM](#)

Senator Elton used the example of the Snettisham avalanche to compare the old and new versions of PCE. Under the old system there was no assistance to Juneau rate payers; under the new system there would be energy relief to Juneau.

Mr. Teal said it was true that Juneau would be eligible under the new PCE. He stated that he was not sure that the system was designed to be used for only a portion of the year. He gave an example of excessive costs in Fairbanks.

SARAH FISHER-GOAD, DEPUTY DIRECTOR OF OPERATIONS, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, stated that Section 2 of the bill would have allowed Juneau to be eligible.

Senator Huggins asked about the households with the most expensive kilowatt hour costs.

[12:49:10 PM](#)

Ms. Fisher-Goad requested clarification of the question.

Senator Huggins wondered how many people were "off grid".

Ms. Fisher-Goad stated she did not have information on unserved, "off grid" areas.

Senator Huggins felt it important to identify who is "off grid" as soon as possible. Ms. Fisher Goad agreed, but thought it would require legislative assistance.

Mr. Teal pointed out that the current and proposed PCE legislation make utilities eligible for PCE reimbursement.

Senator Huggins pointed out that people "off grid" will need assistance, too.

Co-Chair Hoffman thought the cost of transporting fuel to the site was what drove up the cost of generating electricity in rural Alaska.

[12:53:40 PM](#)

Co-Chair Hoffman asked if some communities would fall off eligibility if the floor were to be raised.

Ms. Fisher-Goad said there are a few communities in the North Slope Borough that would not be eligible.

Senator Thomas cited the "Power Cost Equalization Program" (copy on file) costs under various assumptions. He asked about the low costs in Lime Village and if they were based on low population.

Mr. Livey thought that they were paying the difference between \$52.4 and \$1.17 per kilowatt under current law.

Senator Thomas thought the numbers did not add up.

Mr. Teal referred to a handout for further information.

[12:56:56 PM](#)

Co-Chair Hoffman inquired if electric line extension programs are "still on the books".

Ms. Fisher-Goad reported that the electrical service extension fund was repealed several years ago. Such programs are typically funded by grants.

[12:57:48 PM](#)

Co-Chair Hoffman referred to the Estimated FY 2009 General Fund chart (copy on file.) He asked if Alaska received about \$10 billion in oil revenues last year. Mr. Teal said it did. Co-Chair Hoffman inquired if general fund expenditures totaled \$4 billion a year. Mr. Teal agreed.

Co-Chair Hoffman summarized that last year Alaska started off with a debt of \$5.2 billion to the Constitutional Budget Reserve (CBR). He pointed out that \$4 billion was paid off. He wondered what the balance of the CBR was today.

Mr. Teal reported that after last year's legislative session there was a deficit projected of about \$200 million based on the official oil forecast, which turned out to be about \$1.1 billion low. At the end of FY 08, the forecast on the year end surplus or deficit is now a surplus of about \$900 million and would have been swept into the CBR on June 30.

[12:59:39 PM](#)

Mr. Teal observed that the surplus is approximately \$900 million, which would have been swept into the CBR, along with the \$4 billion that was previously appropriated to the CBR. Currently, about \$4.9 billion of the \$5.2 billion has been repaid.

Co-Chair Hoffman summarized that \$300 million is still owed. Next year, if the price of oil averages even \$110 per barrel, Alaska will have just under \$12 billion in revenue. The \$300 million will be paid off - just a drop in the bucket of the CBR. The state will have an operating budget in the neighborhood of \$4 billion, which will leave potentially \$8 billion in revenue. This gives the appearance to the general public that the state is "awash in money". He questioned what the state is doing to assist Alaskans with energy relief. He maintained that the legislature needs to look at ways to help Alaskans in light of the anticipated surplus.

ADJOURNMENT

The meeting was adjourned at 1:04 PM.