

SENATE FINANCE COMMITTEE
March 29, 2012
1:11 p.m.

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CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 1:11 p.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lesil McGuire, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Michael Pawlowski, Staff, Senator Lesil McGuire; Bob Loescher, Alaska Technology Development Group, Juneau; Mark Davis, Deputy Director, Alaska Industrial Development and Export Authority; Peter Naoroz, Manager, Kootznoowoo, Juneau; Duff Mitchell, Alaska Independent Power Producers Association, Juneau; Casey Schroder-Hotch, Staff, Representative Bill Thomas; Pat Luby, Advocacy Director, American Association of Retired Persons, Juneau; Chris Rose, Executive Director, Renewable Energy Alaska Project (REAP); Senator Kevin Meyer; Bruce Johnson, Executive Director, Alaska Council of School Administrators, Juneau.

PRESENT VIA TELECONFERENCE

Robert Wilkinson, Chief Executive Officer, Copper Valley Electric, Glennallen; Dave Jones, Assistant Superintendent, Kenai Peninsula School District, Kenai; Mike Fisher, Chief Financial Officer, Fairbanks Northstar School District, Fairbanks; Steven Kalmes, Director of Transportation,

Anchorage School District, Anchorage; Ken Forest, Mat-Su Borough School District, Palmer.

SUMMARY

SB 25 AIDEA SUSTAINABLE ENERGY PROGRAM

SB 25 was HEARD and HELD in committee for further consideration.

SB 182 PUPIL TRANSPORTATION FUNDING

SB 182 was HEARD and HELD in committee for further consideration.

CSHB 250(ENE)

EXTEND RENEWABLE ENERGY GRANT FUND

CSHB 250(ENE) was HEARD and HELD in committee for further consideration.

#sb25

SENATE BILL NO. 25

"An Act relating to participation by the Alaska Industrial Development and Export Authority in energy projects."

Co-Chair Hoffman communicated that SB 25 had not previously been heard by the committee. The intent was to introduce the legislation, hear public testimony, and set the bill aside for further review. [Note: the bill version discussed by the committee during the following meeting is CSSSSB 25(L&C).]

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SENATOR LESIL MCGUIRE, SPONSOR, introduced her staff Michael Pawlowski. She acknowledged the Senate Finance Committee for work that had contributed to the growth of the Constitutional Budget Reserve (CBR) and the Statutory Budget Reserve (SBR); the funds currently contained over \$15 billion. The purpose of the bill was to put \$250 million of the money to work and to set it aside as a savings for the future. She discussed a PowerPoint Presentation, "Alaska's Sustainable Strategy for Energy Transmission and Supply (ASSETS)" (copy on file). She

stated that the presentation contained slides and estimates of capital spending based on projects that had been identified in reports prepared for or by the Alaska Energy Authority (AEA). She expounded that the presentation was not an endorsement of any of the projects or fuel sources identified by AEA or its contractors. Reports would be referenced in order to show the size of the existing liability.

Senator McGuire continued that the legislation was intended to address a shortage in access to capital. She expounded that in 2008 the legislature responded to high oil prices and the impact the costs had on Alaska residents (slide 4). She recalled that oil had reached \$147 per barrel; currently the price was approximately \$110 per barrel, which she noted was not significantly lower. She stressed that prices continued to be high and that residents (particularly those using diesel as a fuel source) were suffering. The legislature had established the Home Weatherization/Energy Rebate Program and the Renewable Energy Grant Fund. Additionally, direct energy assistance had been offered and the Special Committee on Energy had been established.

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Senator McGuire read from slide 5, "Legislative History 2009-2010":

1. Senate Bipartisan Working Group held hearings across Alaska to develop draft energy programs and policy recommendations.
2. The Legislature passed the Omnibus Energy Bill (SB 220 - Ch. 83 SLA 10) that addresses a wide range of energy issues, ranging from energy efficiency for public facilities to an emerging energy technology fund and from heating assistance to the leasing of state land for renewable energy projects.

Senator McGuire added that a new fund had been created under an omnibus energy bill that could be used for loans related to energy retrofitting. She noted that to-date there had been over 70 applicants for the \$9 million in the emerging technology fund.

Senator McGuire turned to slide 6, "Legislative History: Summary":

1. The Senate Bipartisan Working Group has aggressively led on energy issues through the establishment of sound policies based on public input and the investment of material state resources in energy projects.
2. Significant challenges remain and SB 25 is an additional component of the comprehensive strategy the Bipartisan Working Group has developed to address the energy needs of Alaskans.

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Senator McGuire shared that access to capital had been identified as a problem. The legislature had created more grants and had helped residents weatherize and retrofit homes, municipal buildings, and other. The remaining issue was related to residents with innovative energy projects who did not have access to capital. She stated that nationwide, lenders had become conservative with loans following the recession in 2008. She provided an overview of several relevant documents beginning on slide 8 that included a 2010 AEA report titled "Alaska Energy Pathway; Toward Energy Independence." The report indicated that between the present day and the upcoming ten years, just under \$2 billion in capital spending would be needed for energy projects statewide.

Senator McGuire communicated that the first of the innovative resource plans had come in on schedule from AEA in February 2010 titled "Railbelt Integrated Resource Plan" (slide 9). She pointed to the magnitude of projected capital spending ranging from \$13.625 billion to \$21.109 billion over the upcoming ten years. She emphasized that the needs were dire and she believed that in parts of the Railbelt the situation was approaching emergency status particularly in transmission and generation areas. She pointed to some facilities that were 35 years old.

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Senator McGuire pointed to slide 10 titled "Southeast Integrated Resource Plan (SEIRP)" and explained that AEA had released the plan in December 2011. She understood that Senator Egan, Representative Cathy Munoz, and others, had vocalized criticism about some of the items included in the plan, but she believed the overall message was that the entire state was in dire need for capital. She read from slide 10:

The low end capital cost estimates contained in the refined screened potential hydro project table (p. 1-15, 16) identify \$1.327 billion in potential expenditures.

The capital cost estimates in the results of transmission interconnection economic evaluation table (p. 1-19) identify \$1.424 billion in potential expenditures.

The SEIRP results of integrated cases - regional summary table (p. 1-37) estimates capital spending for the optimal hydro/transmission case at \$1.407 billion.

Senator McGuire added that hydropower made up a substantial portion of the energy structures in Southeast Alaska. She addressed slide 11, "Summary: Capital Estimates":

Alaska Energy Pathway (AEA 2010) near term:

\$1.999 billion.

Railbelt Integrated Resource Plan (AEA 2010) long term:

\$13.625 - \$21.109 billion.

Southeast Integrated Resource Plan (AEA 2011) long term:

\$1.407 billion

Takeaway: there will be substantial spending on energy infrastructure in Alaska over the next five to ten years.

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Senator McGuire turned to slide 12 titled "Financing: Legislative Intent." She discussed a 2011 legislative statement of intent in regards to all capital appropriations working forward in the future. She quoted from the statement (slide 12):

It is the intent of the legislature that the state's capital investment into energy generation projects not exceed 50% of the total investment required to fully complete those projects.

Senator McGuire highlighted that the bill contained provisions that did not allow for greater than one-third of the total project cost to be lent out by the Alaska Industrial Development and Export Authority (AIDEA). She added that the goal was for the state to have "skin in the game" and for projects to pass creditworthiness; the bill recognized a great need and AIDEA's unique authority as an investment bank provided the ability to move forward. She opined that in five years the legislature would be able to look back with pride at opportunities that would be created if the legislation became law. She stated that the bill would help fill existing needs, create new jobs, and increase access to energy transmission and generation. She stressed that without the growth the state's economy had the potential to stagnate and she pointed to the overwhelming burden facing Alaskans related to energy costs. She relayed that Hugh Short was the new chair of AIDEA; she believed that the bill and his background in Alaska growth capital would help instigate growth in the economy.

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MICHAEL PAWLOWSKI, STAFF, SENATOR LESIL MCGUIRE, stated that slide 13 "Financing, Alaska Energy Pathway: AEA July 2010" demonstrated that the gap experienced by many utilities throughout the state was a result of large capital costs and small rate bases. He elaborated that there was a gap between what the utilities could finance versus the demand and infrastructure need. He pointed to a graph that showed projected capital expenditures were well above both the high and low case debt capacities for the Railbelt utilities (from the Railbelt Integrated Resource Plan, slide 13). He explained that SB 25 was intended to help finance energy infrastructure by filling the gap between what utilities could do and existing needs.

Mr. Pawlowski pointed to the Southeast Integrated Resource Plan (slide 14) and explained that debt service, principal, and interest payments were a serious part of any project. The bill proposed that retaining principal and interest payments in-state was an opportunity that the state should consider. He elaborated that the legislature had put a good policy statement on the table and that there needed to be skin in the game in the development of energy projects in the state. The Alaska Energy Pathway and other documents recognized the importance of financing and that access was a major challenge facing utilities. He reiterated that SB 25 was designed to address the financing piece of energy projects.

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Mr. Pawlowski relayed his intent to provide a sectional analysis working in reverse from the end of the bill (slide 16). He explained that the material portions of the bill were in Sections 14 and 15 (beginning on page 8, line 29). He elaborated that page 8, line 29 through page 9, line 21, established the Sustainable Energy Transmission and Supply (SETS) development program within AIDEA. Page 9, lines 22 through 26 described how the fund balance could be used: to finance and to assist in the construction, improvement, rehabilitation, and expansion of energy projects. He noted that the fund was limited specifically to energy projects.

Mr. Pawlowski moved to slide 17 titled "SB 25: Powers and Limitations of SETS." The Powers and Duties section began on page 9, line 27 through page 10, line 21; the bill created a new fund in order to protect AIDEA's existing credit rating and to provide the agency with extended powers and limitations related to energy financing. He moved to page 10, lines 1 through 3 of the legislation, which allowed AIDEA to retain the collateral it needed to finance investment projects.

Mr. Pawlowski shared that the bill would provide AIDEA with the ability to defer principal payments or capitalize interest on energy projects (page 10, lines 4 through 5); the provision related to the period of time between the construction stage and when a project began to generate revenue and offered the ability to enhance the economics of a project while protecting the return to the state. Additional powers provided to SETS and the proposed

development fund (that differ from a traditional revolving loan fund) were included on page 10, line 14; the provision gave AIDEA (under its existing statute AS 44.88.090) the ability to issue debt against fund proceeds. He pointed to financing limitations on page 10, line 22; the limitations were more stringent than those on AIDEA's current financing opportunities. He elaborated that the bill contained a threshold that would not allow AIDEA to finance more than one-third the cost of a project without legislative approval; the provision provided an additional level of due diligence in order to ensure the protection of the state's financial assets. He added that the loan guarantee language that would require legislative approval in excess of \$20 million was taken from the existing AIDEA programs.

Mr. Pawlowski continued to discuss limitations of SETS (slide 17). He turned to page 10, lines 27 through 30 of the bill; financing terms were limited to the life of a project; however, 50 years was allowed for transmission and hydroelectric projects, given their different financing life-cycle. He moved to the beginning of the bill and relayed that Section 1 established the bill's short title on page 1. The intent for capitalization of \$250 million was located in Section 2, page 1, lines 9 through 12. Section 3, page 1, line 13 through page 3, line 22 added the word "energy" into AIDEA's existing authorizing statutes, where the agency's purpose and mission were established. Section 4 contained additional conforming language related to the inclusion of the word "energy." He relayed that the conforming changes had been made in order to draw a nexus between AIDEA's authorizing statutes and the fund to indicate that the agency was expected to finance energy projects in particular.

Mr. Pawlowski communicated that Section 6 contained an adjustment to AIDEA's existing loan participation program. He explained that the agency primarily financed through either a direct investment or the private sector. The section allowed AIDEA to work in conjunction with the commercial financing sector to prevent unfair competition. Section 6 would allow AIDEA to participate in financing through its loan participation program, if a private financial institution wanted to finance an energy project. Page 4, lines 28 through 30, included a change in the loan participation program related to the inclusion of a loan for financing improvements and energy efficiency. He expounded that the legislature had done a significant

amount of work in the individual home, public, and municipal sectors, but it had not been able to "crack" the commercial or multi-family residential sectors. The provision would allow AIDEA to participate with private sector lending institutions to guarantee energy efficiency loans for larger commercial developments.

Mr. Pawlowski looked at Sections 7 through 12 and explained that when AIDEA invested or loaned money it was required to make an interest rate of return. The sections amended each variation of the lending abilities through AS 44.88.159 to require that the same interest rate is earned. Section 13 (page 8, line 9) would allow the agency to offer an incentive interest rebate of not more than 1 percent to encourage rural development, job creation, renewable energy development, and other.

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Mr. Pawlowski concluded his remarks and relayed that Senator McGuire would explain why AIDEA had been selected.

Senator McGuire communicated that there had been some questions about why she had selected AIDEA and not the Alaska Housing Finance Corporation or AEA. She shared that one of the reasons AIDEA had been selected was because its obligations were not obligations of the state (slide 19). She elaborated that AS 44 lay out that the bonds issued by the authority did not constitute indebtedness or other liability of the state. Another reason the authority had been selected was due to the dividend it paid (slide 20). She read from slide 20:

Since inception, AIDEA has paid \$324,500,000 in dividends to the state of Alaska and has net assets of nearly \$1 billion. AIDEA was capitalized with the transfer of \$384,500,000 in general funds and loans beginning in 1981.

Senator McGuire added that AIDEA had come close to returning back the entire amount of funds that had been used to create it. She furthered that \$20 million in dividends had been returned in 2011 alone. She explained that when dividends were put back in the general fund they were recirculated for allocation to meet the state's needs.

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Senator McGuire lauded AIDEA for its talented staff and board members. She believed that Mr. Short, the new chair, would bring much to the agency. She shared that the agency's strong credit rating was another reason it had been selected (slide 21). She read from slide 21:

The most recent ratings report for AIDEA (Standard and Poor's, December 13, 2010) reaffirmed AIDEA's "AA-" rating due to:

1. A pledged portfolio of private activity economic development loans;
2. A currently low loan delinquency rate;
3. Projected cash flows and debt service coverage that meet Standard and Poor's requirements for the 'AA' category for state revolving fund programs;
4. Strong legal covenants, including an additional bonds test requiring either in excess of 1.50x annual debt service, or the maintenance of unrestricted surplus equal to \$200 million or principal outstanding and never less than \$100 million; and
5. Covenants to maintain what we view as good liquidity in the authority's unrestricted cash equivalents balance.

Senator McGuire recognized that with the passage of the bill there would continue to be projects in need of grants; however, the bill provided an opportunity for projects that were "on the fence" and could undergo a commercial process and creditworthiness analysis to put skin in the game and develop a more superior project.

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Mr. Pawlowski communicated that under AIDEA's current leadership it had moved to a more formalized process. He addressed slide 22 titled "AIDEA has developed a process for evaluating and initiating financing decisions." He detailed that the slide illustrated the current schematic that would be adopted by the agency in order to provide for

multiple "no-go" decisions, fiscal reviews, and checks and balances to a project. He elaborated that the legislation provided AIDEA powers to develop fiscal controls for the fund that it would establish. He stressed that it was the sponsor's intent that strong fiscal controls would be instituted to ensure that state assets would be protected.

Mr. Pawlowski provided a brief review on how the proposed structure would work (slide 23, "How SETS will work within AIDEA"). The structure had multiple steps: (1) the state would establish SETS and capitalize it with an appropriation, (2) AIDEA would use proceeds within SETS to finance energy projects, (3) energy projects would repay the fund (AIDEA had the power to borrow money against proceeds from the capital markets in order to return money to the fund that could be loaned to more projects), and (4) AIDEA would pay a dividend back to the state based on 25 percent to 50 percent of its earnings. He relayed that the point was to put some of the state's money to work within the state that would earn a rate of return, provide financing to projects, and generate additional revenues for the state's treasury.

Mr. Pawlowski emphasized that SB 25 would fill a portion of the puzzle that the Senate had addressed for several years related to energy problems within the state.

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Senator Thomas observed that some projects had significant upfront and long-term costs, but had a dramatic impact on the state's economy. He wondered whether consideration had been given to what the state received from some lesser interest rates compared to the annual interest rate that would be achieved from internal and external investment managers of AIDEA funds. He asked whether the sponsor had looked at some of the lower interest rates that the state received from long-term bonds.

Mr. Pawlowski replied in the affirmative. He shared that the decision had been made to moderate the interest incentive to the existing economic development that may allow for an interest rate of up to 1 percent. Related to statewide benefits, the theory was that because most projects would need legislative approval, once a financing plan was in place and came before the legislature for approval, the ancillary benefits could be thought through

at the legislative level. He furthered that the bill would not give AIDEA the power to delve into questions of that nature. The goal had been to keep AIDEA to a commercial lending decision base to protect its credit rating and to protect the return to the treasury. He added that there would always be a need for additional capitalization in addition to what SB 25 would provide.

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Senator McGuire emphasized that the purpose behind the creation of AIDEA was that it would support state infrastructure, which was the reason it had been selected for the location of the proposed fund. She referenced other provisions that would allow AIDEA to defer principal payments and other. She was open to proposed changes that would not change the intent of the bill in major ways. She believed it was important that a return was generated and given back as a dividend. She recognized the dramatic impact renewable energy projects in particular would have to the state. She hoped that the board would analyze projects for their potential benefit to the state.

Senator Thomas appreciated a memorandum that had been provided to members related to some projects that were more politically motivated rather than economically motivated.

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BOB LOESCHER, ALASKA TECHNOLOGY DEVELOPMENT GROUP, JUNEAU, testified in support of SB 25. He discussed his involvement in energy and economic development for rural and Native communities; he had also served on the AIDEA board for two terms as a public member. He believed AIDEA was the appropriate location for the fund and that the agency was vital to the economic development and infrastructure support of Alaska. He relayed that AIDEA was involved in port development, commercial development of tourism facilities, malls, airports, and other. He stressed that the agency's contribution to the state had allowed for the utilization of Alaska's financial resources and had brought

in capital from national institutional investors. He emphasized that AIDEA had protocols to balance investments from various enterprises across the state. He relayed that there were needs in rural and urban areas that needed to be balanced as Alaska committed to investments. He urged the committee's support of SB 25.

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MARK DAVIS, DEPUTY DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, stated that SB 25 would create an energy infrastructure bank that would be a new program within AIDEA. The fund would be separate from the agency's current Enterprise Development Fund, which was used to fund AIDEA's loan participations and project development. He stressed that the powers proposed in the legislation would fit into the current financial markets. He remarked that interest rates were currently at low levels and commodity prices were at high levels, meaning that there was capital seeking to invest in infrastructure that would earn a rate of return. The type of return put forward in the bill was consistent with market-based rates that AIDEA currently used in loan participations. He believed the bill would create the opportunity for leveraging money with private capital in order to build energy projects. He relayed that energy projects tended to be expensive; therefore, large amounts of capital would be needed.

Mr. Davis listed important powers under the legislation including the capitalization of interest to allow for "patient capital." He provided an example of a project when AIDEA provided bonds that were paid back over a long-term period; the example was consistent with the type of financing used for infrastructure. The bill would provide AIDEA with the ability to make direct loans and allowed for bond and loan guarantees. He explained that a bond guarantee could be useful if a utility issued a bond based on its overall financial condition because the guarantee could allow the rate to be lowered; the lower rate could save rate payers a significant amount of money with relatively low risk.

PETER NAOROZ, MANAGER, KOOTZNOOWOO, JUNEAU, spoke in support of SB 25. The organization believed the bill was needed and that it would allow the public and private sectors to come together. Kootznoowoo had been very involved in the Southeast Integrated Resource Plan; he

recalled that it had been discussed throughout the drafting process how expensive energy projects were and how Alaska did not have enough money. He believed that Alaska is a great investment and that the ability to invest in the state would attract a substantial amount of private capital. He provided an example related to land owned by the organization. He emphasized that SB 25 provided a mechanism to attract capital investment from inside and outside of the state, which would be beneficial due to the high infrastructure costs.

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DUFF MITCHELL, ALASKA INDEPENDENT POWER PRODUCERS ASSOCIATION, JUNEAU, testified in favor of SB 25. He believed the bill offered one portion of a portfolio of opportunities that would allow the state to become energy independent and would lower and/or stabilize energy costs. He stated that the bill would enable the private sector to invest capital and help projects reach development. He furthered that a unique aspect of the bill was that leveraging and syndicating a loan would allow AIDEA to bring in state money, which would reduce risk for large international and national firms to invest. The organization believed SB 25 was good and responsible legislation. He shared that infrastructure investment in energy paid dividends in two ways: (1) it paid back the loan and (2) it paid a dividend to lower or stabilize rates for economically feasible long-term projects (e.g. hydropower projects). He stressed that long-term projects became feasible when dividends were paid back to citizens over time. He reiterated the association's support for the legislation. He believed increasing the capitalization amount included in the bill would be beneficial; projects of magnitude could evaporate the total fund rapidly.

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ROBERT WILKINSON, CHIEF EXECUTIVE OFFICER, COPPER VALLEY ELECTRIC, GLENNALLEN (via teleconference), testified in support of SB 25. He referenced a letter of support from Copper Valley Electric (copy on file). He discussed the company's current Allison Creek hydropower project that would cost \$40 million; the company had received \$14 million in funding through the Renewable Energy Fund and capital budget appropriations. He shared that the company would likely borrow most or all of the remaining funds; SB

25 would allow it to borrow the money from the state. The company believed that the bill was an opportunity for the state to invest in worthy infrastructure projects and that it would help achieve lower power costs for Copper Valley members and would earn a return for the state treasury. He noted that the legislature had created the Renewable Energy Fund in 2008 and the Sustainable Energy Act in 2010. Copper Valley believed that SB 25 was the next logical step in fulfilling the vision that had been unfolding in recent years. He urged the committee to pass the legislation.

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Senator McGuire thanked testifiers for their time and drew attention to letters of support in members' packets (copies on file). She opined that the bill represented the next logical step following efforts that had been made.

SB 25 was HEARD and HELD in Committee for further consideration.

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#hb250

CS FOR HOUSE BILL NO. 250(ENE)

"An Act relating to the renewable energy grant fund and recommendation program; and providing for an effective date."

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Co-Chair Hoffman turned the meeting over to Co-Chair Stedman. Co-Chair Stedman relayed that CSHB 250(ENE) had not previously been heard by the committee. The intent was to introduce the legislation, hear public testimony, and set the bill aside for further review.

CASEY SCHRODER-HOTCH, STAFF, REPRESENTATIVE BILL THOMAS, provided an overview of the legislation. She explained that the bill would reauthorize the Renewable Energy Grant Fund for an additional five years. The fund was established in 2008 and had funded around 200 projects statewide, with a

focus on areas with the highest energy costs. She furthered that additional projects came forward on an annual basis; 21 projects were "on line" at the end of 2011. Estimates showed that by 2013 the fund would be responsible for displacing 6 million gallons of diesel fuel each year. She relayed that the fund included a continuation of the intent language expressed in the enabling legislation to fund the program at \$50 million per year.

Co-Chair Stedman noted the one fiscal note from the Department of Commerce, Community and Economic Development in the amount of \$2,155,000 that had been included in the governor's FY 13 operating budget.

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PAT LUBY, ADVOCACY DIRECTOR, AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP), JUNEAU, testified in support of HB 250. He shared that all AARP members were energy consumers and customers; many Alaskans were having trouble paying their energy bills. He observed that the state had a history of developing successful renewable energy projects through the fund. He stressed that renewing the fund would provide Alaska and its citizens with more opportunities to experiment with renewable energy projects. He urged support for the legislation.

Co-Chair Hoffman requested that Chris Rose, Executive Director of the Renewable Energy Alaska Project, provide remarks on his participation in the program.

CHRIS ROSE, EXECUTIVE DIRECTOR, RENEWABLE ENERGY ALASKA PROJECT (REAP), detailed that REAP was a coalition of approximately 85 organizations in Alaska including utilities, businesses, conservation, consumer groups, Native organizations, and local, state and federal entities. The coalition supported the reauthorization and extension until at least 2018. He relayed that there had been a significant number of projects in the pipeline. He noted that of the 208 funded projects, approximately half were feasibility and reconnaissance projects, which meant that there were many projects that had not reached construction. The coalition believed that there would be a substantial number of construction projects in the upcoming four to five years. He shared that the fund would displace at least 6 million gallons of diesel fuel by the end of the next year and the number would continue to expand.

HB 250 was HEARD and HELD in committee for further consideration.

#sb182

SENATE BILL NO. 182

"An Act amending the amount of state funding provided to school districts for pupil transportation."

Co-Chair Stedman relayed that SB 182 had not previously been heard by the committee. The intent was to introduce the legislation, hear public testimony, and set the bill aside for further review.

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SENATOR KEVIN MEYER, SPONSOR, introduced SB 182. He discussed that education and addressing complex issues related to its delivery to students was a top priority of the Senate. He shared that as co-chairs of the Senate Education Committee both he and Senator Joe Thomas had been looking for ways to improve the system, including the passage of SB 171, which would increase the Base Student Allocation. Another important and costly item was pupil transportation that totaled approximately \$62 million annually. He elaborated that up to 2003 the state provided funding for pupil transportation based on actual costs (derived from annual financial audits) that were reported to the Department of Education and Early Development (DEED). Subsequent to 2003 reimbursement had been determined on a per pupil basis; it had been determined that the method was underfunding pupil transportation costs, which had forced districts to take money out of classrooms to fund transportation. Additionally, there was no consistency between districts because they dealt with the issue in different ways (e.g. newer versus older school buses and other).

Senator Meyer communicated that SB 182 would recalibrate the existing per pupil amount received by districts under the current grant program up to more realistic levels. The bill would change the per pupil program to an actual cost or reimbursable program similar to the system that was in place prior to 2003; the program would be based on annual financial audits reported to DEED. Additionally, the bill would give DEED oversight to control costs; the goal was

for the department to line up all school districts that would allow a Request for Proposal (RFP) process to obtain competitive bids on the busing system (currently school districts were responsible for their own RFPs and rates were high in some areas).

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Co-Chair Stedman noted the one fiscal note from DEED in the following estimates: an FY 12 supplemental in the amount of \$8,103,300; an FY 13 appropriation for \$10,450,300, which was in addition to the \$62,202,700 in the governor's proposed FY 13 operating budget; and one additional full-time position.

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DAVE JONES, ASSISTANT SUPERINTENDENT, KENAI PENINSULA SCHOOL DISTRICT, KENAI (via teleconference), testified in support of SB 182. He thanked the committee for addressing the issue. He stated that transportation costs had risen substantially and districts were forced to pull money from classrooms if the costs were not met within the transportation funding. He shared that the Kenai district had attempted many strategies to entice additional vendors to bid, but attempts had been unsuccessful. He stressed that without the legislature's help there would be a substantial deficit in the transportation fund. He urged the passage of the bill.

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MIKE FISHER, CHIEF FINANCIAL OFFICER, FAIRBANKS NORTHSTAR SCHOOL DISTRICT, FAIRBANKS (via teleconference), voiced support for SB 182. He thanked the committee and sponsor for the work done on the transportation issue. He shared that the district bused over 7,000 students per day and covered over 1 million miles annually. He emphasized that the bill would help the district keep other critical operating dollars in the classroom.

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STEVEN KALMES, DIRECTOR OF TRANSPORTATION, ANCHORAGE SCHOOL DISTRICT, ANCHORAGE (via teleconference), testified in support of SB 182. He communicated that the district had seen significant increases in pupil transportation costs

that surpassed the amount provided under the grant system. He pointed to steep fuel increases in recent years and shared that in 2006 the district had a fuel cap of \$2.50 per gallon in its contract; prices were currently over \$4.00 per gallon. Significant increases had occurred due to rising fuel and school bus costs; bus cost increases were a result of escalating costs for raw materials (3 percent to 5 percent annually). Additionally, bus costs had increased 7 percent to 10 percent in order to meet the 2010 federal mandate on diesel emissions. He relayed that federal requirements were growing; in the upcoming year the district would spend almost \$500,000 on the transportation of homeless students. He stressed that due to the increased costs and lack of funding, the district was eating into the classroom funding; the shortfall was expected to be approximately \$2.2 million. He reiterated the district's support of the legislation.

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KEN FOREST, MAT-SU BOROUGH SCHOOL DISTRICT, PALMER (via teleconference), vocalized support for SB 182. The Mat-Su district was experiencing notable increases in expenses related to pupil transportation. He relayed that the district had conducted a competitive bid the prior year that had resulted in two bids; the low bid had been selected and approximately \$11 million had been saved over the life of the contract; however, costs had still risen substantially. He communicated that the district would be eating into its general operating fund for about \$3.4 million in the upcoming year. He thanked the committee for its efforts to move the bill forward.

[2:20:38 PM](#)

BRUCE JOHNSON, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS, JUNEAU, spoke in support of SB 182. He recognized the school business officials that worked to determine accurate per student amounts included in the CS. He emphasized that the bill would help ensure that dollars destined for the classroom would not be diverted to transportation.

Senator Meyer provided closing remarks. He stated that when the system moved from an actual cost basis to a per pupil basis in 2003 the legislature thought the change would save money; however, costs had increased and money had not been

saved. He opined that the system had created inconsistencies between school districts related to busing standards.

SB 182 was HEARD and HELD in committee for further consideration.

Co-Chair Stedman discussed the schedule for the following day.

ADJOURNMENT

2:22:57 PM

The meeting was adjourned at 2:22 PM.