

HOUSE FINANCE COMMITTEE
March 31, 2015
2:28 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 2:28 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Jane Pierson, Staff, Representative Steve Thompson;
Representative Jonathan Kreiss-Tomkins, Sponsor; Crystal Koeneman, Staff, Representative Cathy Munoz; Adam Berg, Staff, Representative Bryce Edgmon; Sarah Fisher-Goad, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development; John Springsteen, Executive Director, Alaska Industrial Development and Export Authority; Andy Mills, Legislative Liaison, Department of Administration; Kathy Lea, Chief Pension Officer, Division of Retirement and Benefits, Department of Administration.

PRESENT VIA TELECONFERENCE

Wayne Zigarlick, Vice President and General Manager, Kensington Gold Mine.

SUMMARY

HB 68 ELECTRONIC DISTRIB. OF REPORTS

CSHB 68(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (GOV).

HB 135 PUBLIC EMPLOYEE ROTH CONTRIBUTIONS

HB 135 was HEARD and HELD in committee for further consideration.

HB 143 AIDEA BONDS, LOANS, FUND; AEA LOAN

HB 143 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson discussed the agenda for the day.

#hb68

HOUSE BILL NO. 68

"An Act relating to the preparation, electronic distribution, and posting of reports by state agencies."

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Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for HB 68, Work Draft 29-LS0352\I (Nauman, 03/24/15).

JANE PIERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, reviewed the changes in the Committee Substitute (CS) bill. She reported that two changes were made to the bill found on page 3. The first change on lines 16 through 18 read as follows:

(b) A report produced and distributed by a state agency shall prominently state the Internet website where a digital copy and the physical address where a print copy of the report may be found.

Ms. Pierson identified the second change found on line 24:

Sec. 44.99.260. Print copy requests. A person may obtain, at no charge, up to two print copies of reports from the state library distribution and data access center under AS 14.56.170 each day..

Ms. Pierson communicated that "two" was changed from "four" due to the large size of some of the reports.

REPRESENTATIVE JONATHAN KREISS-TOMKINS, SPONSOR, recapped HB 68. He explained that the legislation digitized state reports that were printed in large quantities at a "significant" cost to the state. He believed that the bill modernized how the state disseminated reports and information.

Co-Chair Neuman asked for a description of the legislation and reasons why the bill was important. Representative Kreiss-Tompkins noted that HB 68 was projected to save the state a half million dollars each year. He believed that the bill increased the public's access to public information and standardized the way reports were made available to the public electronically. Additionally, the legislation created a standard for digitization and archival of state reports. A consequence of the bill increased the amount of reports for archiving needs from four to five. The need was discovered when performing research for the bill. He summarized that the bill digitized state reports, saved the state money, and standardized the means of digital access to the information.

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Co-Chair Neuman asked about people that do not have access to the internet. He wondered how they will have access to state reports. Representative Kreiss-Tompkins responded that, relatively nothing is really changing for people that live in rural areas or lacked internet access. The state was not automatically mailing copies of reports to people in rural areas without internet, access to public radio, or newspapers. He elaborated that HB 68 entitled anyone who wanted a copy of a report to contact the state library system and request copies. He offered that the bill created parallel paths for any individual who wanted state reports; one was electronic and the other supplied hard copies through the mail. He thought that the language in the bill

that allowed for the supply of hard copies was enhanced and "iron-clad" going beyond existing law.

Co-Chair Neuman wondered how people would know if the information is available to them. Representative Kreiss-Tompkins responded that currently the isolated individual was in the same situation without HB 68. The person could call or write the state library and request a report. He claimed that current statute did not specify that the person could request copies from the state library system. He did not know how any bill could solve the problem of making the public aware of the existence of state reports. He believed that the legislation protected and enhanced the access to public information if people wanted it and did not inhibit access to state reports in any way. He suggested that the information regarding citizens' access to public information could be incorporated into school civics curriculum. He would like to make more Alaskans aware of their right to public information, but HB 68 did not address the issue.

Co-Chair Thompson thought that the bill would make state reports more accessible to people living more remotely and desired the information. Representative Kreiss-Tompkins agreed.

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Vice-Chair Saddler appreciated Representative Kreiss-Tompkins accepting his amendment. He asked what he based the \$500 thousand in savings on since the amount was not reflected in the fiscal note (FN 1 (Various)). Representative Kreiss-Tompkins responded that the actual savings were indeterminate but would be a "negative number." He shared that the Office of Management and Budget (OMB) provided the \$570 thousand as a total amount for the state's aggregate printing costs. The legislation allowed a commissioner or division director to determine whether a report was so important that it should be both printed and digitized. Therefore, some printing costs were still applicable. In addition, he exemplified pamphlets and brochures from the Department of Fish and Game (DFG) and Division of Motor Vehicles (DMV) as information that warranted hard copies.

Representative Munoz related that often the cost of printing several copies of publications were close to the

cost of printing "hundreds of copies." She asked whether the reports would be copied as published reports or merely Xeroxed copies. Representative Kreiss-Tompkins responded that the bill contained a provision that required the reports to be produced in-house and not published as glossy publications designed by commercial graphic designers. He remarked that the savings created by the in-house requirement was not calculated in the fiscal note and would further enhance the savings. The reports would no longer be published in an elaborate format and would be able to be printed as a PDF. He deferred to the state library system for a more definitive answer.

Representative Munoz wanted to put on the record that the intent of the bill was to save costs and ease simplicity of printing in order to produce the savings. Representative Kreiss-Tompkins agreed with her statement.

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Representative Kawasaki appreciated the bill. He referred to a Legislative Research report listing the state agency reports required by statute. He asked whether the bill would supersede the current statute that required legislators to receive printed copies of mandated reports. Representative Kreiss-Tompkins responded in the affirmative. He explained that some agencies had already decided to send its mandated reports to legislators via an electronic link by email. He understood that statutorily mandated reports would all be disseminated electronically to legislators with passage of the bill. He qualified that the reports would be sent electronically unless a commissioner or division director determined that a "high and public" need existed for hard copies of the report. He noted that a division director included a lieutenant governor, governor, and the legislative branch. In the case the legislature or governor's office produced an important publication deemed worthy of printing the appropriate entity could produce a hard copy of its report.

Representative Kawasaki lifted a basket of reports that he had received within the past couple of days. He voiced that he also received a large quantity of emails each day. He expressed concern that he would "lose" report notices hiding in his email. He did not want to receive all of the mandated reports; only certain reports as hard copies. He wondered if there was a way legislators could opt out of

receiving paper reports. Representative Kreiss-Tompkins responded in the negative. He explained that agencies did not have a mechanism to send out reports in that manner. He understood Representative Kawasaki's email issue.

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Co-Chair Thompson referred to page 3, line 20. He read from the page:

...electronic posting on the Alaska Online Public Notice System (AS 44.62.175) fulfills any obligation in state law to publish, prepare, or present a report, and electronic distribution fulfills any obligation in state law to submit a report.

Co-Chair Thompson OPENED public testimony.

Co-Chair Thompson CLOSED public testimony.

Co-Chair Neuman MOVED to REPORT CSHB 68(FIN) out of committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, CSHB 68(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (GOV).

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RECONVEYED

#hb143

HOUSE BILL NO. 143

"An Act authorizing the Alaska Industrial Development and Export Authority to issue bonds to finance the infrastructure and construction costs of the Sweetheart Lake hydroelectric project; and relating to legislative approval for a loan from the power project fund to the Lynn Canal Transmission Corporation."

Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for HB 143, Work Draft 29-LS0599\E (Wallace, 03/26/15).

There being NO OBJECTION, it was so ordered.

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CRYSTAL KOENEMAN, STAFF, REPRESENTATIVE CATHY MUNOZ, discussed the legislation. She explained that the bill provided legislative authority for the Alaska Industrial Development and Export Authority (AIDEA) to issue bonds to finance the infrastructure and construction costs of the Sweetheart Lake Hydroelectric project. In addition, the bill authorized Alaska Energy Authority (AEA) to provide loans from the Power Project Fund (PPF) for both the Lynn Canal Transmission Corporation and the King Cove Waterfall Creek Hydroelectric Project. She detailed that the Federal Regulatory Agency had accepted the Sweetheart Creek hydropower license application and was currently processing the Environmental Impact Statement (EIS). The Sweetheart Creek project would provide Juneau with an additional 116 thousand megawatt hours; an increase in Juneau's energy capacity of 25 percent. The project would also provide 85 new jobs, new recreational infrastructure, and fishery enhancements. The Lynn Canal transmission project would add approximately 35 miles of transmission line from the existing Lena substation to the Kensington Mine. She noted support from the City and Borough of Juneau (CBJ), and the Southeast Conference.

ADAM BERG, STAFF, REPRESENTATIVE BRYCE EDGMON, reviewed the King Cove Waterfall Creek Project. He communicated that a statutory requirement for a loan from the Power Project Fund (PPF) was legislative approval of loans exceeding \$5 million. The Waterfall Creek project immediately required a loan of \$1.2 million, and to advance to construction a loan totaling \$6 million was necessary. He highlighted that the project was fully designed, permitted, and construction bid ready. The completed project would provide King Cove the capability to produce 75 percent of its energy needs with hydroelectricity.

Ms. Koeneman revealed that passage of the legislation did not guarantee project completion. The projects were required to pass financial, economic, and technical feasibility studies and due diligence analysis as well as board approval to move forward.

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Co-Chair Neuman referred to the new Department of Commerce, Community and Economic Development (DCCED) fiscal note for AEA. He read from the analysis:

Although HB 143 provides AEA with required authorization for a loan, the PPF does not have a balance sufficient to fund a \$22,000,000 loan. The PPF currently has approximately \$13,000,000 in uncommitted funds. Without additional funds AEA would be able to provide a loan of approximately \$9,000,000.

Co-Chair Neuman asked where the additional loan funds would come from. Ms. Koeneman offered that the PPF was replenished as loans were repaid. She stated that sufficient funds would be available for the loans in HB 143.

Co-Chair Neuman suggested that if the PPF did not currently have sufficient funds there would not be enough to provide loans for the bill's projects as well as other worthy projects around the state. He voiced that the bill asked for future financing from an account with insufficient funds. He thought that the state would be financing the projects in HB 143 at the expense of other communities with higher energy costs and greater need. He wondered how the issue should be dealt with.

Ms. Koeneman responded that there were additional private investment funds that would potentially be available and the loan amount was "up to \$22 million." She elaborated that the bill granted AEA the authority to provide the loans if the fund became solvent within the next few years. She understood Co-Chair Neuman's concerns.

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SARAH FISHER-GOAD, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that the way AEA handled the loans in the past; when the legislation authorized a greater amount than existed in the PPF, AEA worked with the applicant to accept a smaller loan amount. She indicated that AEA ensured that a proper financing plan was in place for construction in order to move forward with the project.

Co-Chair Neuman restated his question. He was concerned that with limited funding for other areas in the state with

greater need and higher energy costs including interior Alaska, which would not have access to the PPF and their projects would be in jeopardy. Ms. Sarah Fisher-Goad replied that AEA attempted to anticipate other needs and limited the loan to \$9 million. She qualified that the fiscal note was written before the King Cove project was added. She reiterated that AEA worked with applicants to provide smaller loans in order not to drain the fund for smaller communities and utilities that also applied for loans. She shared that AEA was very aware that the fund was needed for other projects. She announced that AEA recently provided a small loan to Pilot Point for diesel generator repairs. She assured that AEA always kept loan funds available in order to finance loans for smaller communities.

Representative Wilson asked about the King Cove project. She asked whether the community already received Power Cost Equalization (PCE) and if so, would the project have a positive impact to substantially lower energy bills. Mr. Berg deferred to Ms. Sarah Fisher-Goad.

Ms. Sarah Fisher-Goad responded that King Cove did receive Power Cost Equalization (PCE) but was uncertain what impact the project would have to lower energy costs. She furthered that the community of King Cove was very proactive with the development of hydropower and lowering costs. King Cove had lower power costs than many other communities due to the development of hydropower and just barely qualified for loans from the Renewable Energy Fund due to AEA's emphasis on higher cost areas. She conveyed that she did not have the communities PCE figures available but expected that the project would be "beneficial" to the rate payers. Representative Wilson requested the information. She wanted to see communities become more self-sufficient and wanted AEA to determine whether the project would also lower rates and therefore, lower PCE payouts and base loan criteria on those outcomes.

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Representative Kawasaki cited the fiscal note and referenced the PPF balance of \$13 million in "uncommitted funds." He asked whether that meant there were no other projects under consideration by AEA. Ms. Sarah Fisher-Goad responded that there were two projects that were pending as part of the available balance. She reported that AEA

currently had projects, working their way through other requirements, with committed loan funds not yet distributed that were still in the fund but not loanable. The cash balance of the PPF was higher than \$13 million considering the committed funds. She provided the example of the Reynolds Creek Hydroelectric project which had a \$20 million committed loan from the PPF.

Representative Kawasaki asked for instances when AEA would not authorize the entire loan amount and under what reasoning. Ms. Sarah Fisher-Goad related a similar situation for a project in Sitka that received an authorization for \$18 million but the PPF balance was lower. The City of Sitka was able to find a better loan with lower interest through the municipal bond bank and financed the project through the bond bank. She added that in the past AEA received alternative appropriations for the loan fund. In 2010, AEA sold the loan portfolio to AIDEA for a cash infusion into the fund and received a \$10 million appropriation directly into the fund. She noted that another alternative for a project to receive funding through PPF was through a direct appropriation into the fund similar to the Humpback Creek project in Cordova.

Representative Munoz requested time to allow Mr. Ziglick to testify. Co-Chair Thompson agreed.

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Representative Guttenberg declared that the Interior Energy Project (IEP) only needed authorization to change the way appropriated funds would be used. He claimed that the interior communities paid some of the highest utility rates in the nation on a road system. He asked what the kilowatt costs were currently for the rate payers in the communities the projects in HB 143 would serve. He wondered what the savings for the rate payers would be. Ms. Sarah Fisher-Goad reported that the City of King Cove paid 23 cents per kilowatt hour after a PCE rate of 8 cents per kilowatt hour. She would provide additional information with respect to what the rates would be after the King Cove project was operational. She informed the committee that AEA did not have an application from the Lynn Canal transmission project and deferred to a project spokesman for an answer.

Representative Guttenberg asked whether the transmission project was "advanced enough." Ms. Sarah Fisher-Goad

responded that without an application she had not done any analysis. She knew that the project was "closely linked" with the Sweetheart Lake project.

WAYNE ZIGARLICK, VICE PRESIDENT and GENERAL MANAGER, COEUR ALASKA KENSINGTON GOLD MINE (via teleconference), stated that the gold mine was located approximately 45 miles north of Juneau. He delineated that the mine employed 320 direct employees and approximately 40 contract employees. The operation took approximately 8 megawatts of electrical power to support all of the mining activities. The power was currently supplied by 7 diesel generators. The cost of power generation including fuel and maintenance amounted to 12 to 15 percent of the mine's operating cost. He noted that the power costs were the second greatest operating expense behind labor costs. He believed that hydroelectric power would significantly reduce the mines power costs and increase the mines sustainability. He reported that Coeur Alaska entered into a "letter agreement" with Juneau Hydropower. The essence of the agreement committed Coeur Alaska to negotiate a power sales agreement with Juneau Hydropower "once the terms of the agreement can be identified." He relayed that he was the President of the Lynn Canal Transmission Corporation, which was a "non-profit entity designed to provide open and non-discriminatory transmission line services to the northern Lynn Canal at the lowest possible cost."

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Representative Gara did not have a problem with the bill. He summarized that the loan would be provided to the Lynn Canal Transmission Corporation to interconnect to the Kennington Mine and only applied to the northern Lynn Canal region. He wanted to know whether other "major" users aside from the mine would benefit from the transmission line. Mr. Zigarlick replied that there were other residential users and landowners that would benefit from the transmission line.

Co-Chair Thompson requested that the bill's sponsor provide the committee with more information on how many people the projects would serve.

Vice-Chair Saddler referred to the letter from AEA (copy on file) that stated AEA would engage in the "due diligence" necessary for authorization of the loan regardless of

passage of the legislation. However the letter from AIDEA (copy on file) stated that they would not proceed without authorization. He asked for clarification regarding the discrepancy and wondered how much AEA would expend on due diligence in the absence of authorization. He read the following from the AEA letter:

Independent of the legislative authorization and upon receipt of a PPF loan application AEA will complete project due diligence analysis of the financial, economic, and technical feasibility of the project.

Ms. Sarah Fisher-Goad commented that her letter was not phrased correctly and apologized. She clarified that her use of the word "independent" meant that the due diligence would be an effort independent of the authorization. She explained that even with authorization of the loan, AEA would still engage in a due diligence effort and emphasized that the authorization for the loan did not mean the loan would be approved.

Vice-Chair Saddler relayed that he was familiar with a Southeast Alaska Regional future energy plan. He wondered how the projects fit into the plan. Ms. Sarah Fisher-Goad indicated that she would have to review the Southeast Integrated Resource plan to determine whether the projects were specifically addressed in the plan. She would provide the information.

Representative Munoz indicated that the Integrated Resource Plan was not accepted by the region because of its recommendation to utilize woodstoves as a primary source of generating the regions electricity. She cautioned that she would not rely on the study's outcomes to draw any conclusions about the bill's projects. She added that the projects were supported by the Southeast Conference which was a regional entity of Southeast communities and businesses.

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Representative Pruitt remembered that the report recommended that Southeast should turn to wood burning stoves. He indicated that the projects would help mitigate the issues created by wood burning in the Juneau area.

Representative Munoz offered that the project would increase the city's hydroelectric capacity by 20 percent and positively impact rate users.

Representative Edgmon surmised that both projects met the objectives of the Alaska Energy Policy that was adopted in 2010. He recalled that the policy identified the PPF as the primary source of funding for projects that benefitted rate payers and for business development. He requested an opportunity to further discuss the policy during the next hearing on the bill.

Representative Guttenberg pointed out that many communities around the state are moving towards using biomass fueled energy. He stated that Southeast had an ample quantity of biomass and cited a biomass project in Tok for heating schools. He believed that biomass took the pressure off of using transmission lines.

Representative Munoz stated that she had not intended to diminish the use of biomass fuels and stated that there were successful biomass projects in Southeast. She commented that the integrated plan recommended a major conversion of much of the region which did not fit the model of a region rich in water resources. She believed that biomass was part of the solution but not the entire solution.

HB 143 was HEARD and HELD in committee for further consideration.

#hb135

HOUSE BILL NO. 135

"An Act establishing a Roth contribution program for the public employees' deferred compensation program; and providing for an effective date."

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ANDY MILLS, LEGISLATIVE LIAISON, DEPARTMENT OF ADMINISTRATION, explained that the Deputy Commissioner could not be present for the current meeting. He reviewed HB 135. He related that the bill was a way for employees to control the timing of taxation of their deferred contributions. Currently the deferred compensation plan was a pre-tax option. Taxes would be paid at the time of

retirement. The bill allowed for another deferred compensation option that was a post-tax plan. Taxes would not be paid in the future. Employees could then have a mix of pre-tax and post-tax options in their retirement portfolios. He furthered that current Alaska statutes only allowed for tax deferred contributions into the plan and was passed in 1973. In 2011, Congress passed legislation that enabled state governments to provide the Roth 457 option. He deduced that the Roth 457 was another option for public employees to diversify their retirement portfolio and merely offered another deferred compensation option.

Co-Chair Thompson asked whether the post-tax contribution earnings were taxable.

KATHY LEA, CHIEF PENSION OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, explained that the objective of a designated ROTH contribution was that the earnings were not taxed upon distribution if they met the qualification rules. The qualification rules required that the Roth account was intact for five tax years, and the member's age was 59 and a half.

Representative Guttenberg asked what the benefit for the employee was by opening the Roth through the state. Ms. Lea explained that the designated Roth contribution differed from the private sector Roth IRA because it took on the characteristics of a deferred compensation plan. Therefore, the total contribution was greater than what was allowed in the private sector Roth accounts. In addition, there was not an income requirement to participate in the plan.

Representative Guttenberg asked what the maximum contribution was. Ms. Lea responded that the maximum contribution for deferred compensation was \$18 thousand per year. She continued that the employee could elect a pre or post tax plan or contribute to both options. The state was required to account for both options differently.

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Representative Guttenberg asked whether there was an expected rate of return. Ms. Lea stated that Roth 457 was not an investment option it was a taxation option. She indicated that the investment vehicles in the deferred compensation plan remained the same and the rate of return depended upon the investment plans the employee chose.

Co-Chair Thompson asked whether the \$18 thousand limit on deferred compensation contributions applied to both pre and post tax options. Ms. Lea answered that the limit applied to both options and was the total limit if the employee chose a combination.

Co-Chair Neuman wondered why the deferred compensation plan was not set up with both options when the plan was implemented. Ms. Lea explained that the Roth option only became available on January 1, 2011.

Representative Pruitt expressed concerns with the state taking on the additional role of financial advisor. He wondered how the state could convey the information to the employees in a way that they could relay the proper information to their personal financial advisor or correctly manage their retirement accounts on their own. Ms. Lea reported that a contribution to the state ROTH 457 would not prohibit an employee from also contributing to a private sector Roth IRA. The plan also provided some optional financial education and advice to employees. Representative Pruitt misunderstood the plan and thought that \$18 thousand limit was the full contribution an employee could make in both the state and private plans.

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Mr. Mills commented that retirement investments were highly personalized and noted the probable benefits of a post-tax option. He thought that the additional plan "empowered employees with options."

Vice-Chair Saddler stated that the Roth 457 was simply a different vehicle to manage deferred compensation.

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HB 135 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

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The meeting was adjourned at 3:42 p.m.