

HOUSE FINANCE COMMITTEE
April 16, 2016
9:14 a.m.

9:14:02 AM

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 9:14 a.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

[Note: Representative Guttenberg and Representative Pruitt were absent for the morning portion of the meeting.]

MEMBERS ABSENT

None

ALSO PRESENT

Pete Ecklund, Staff, Representative Mark Neuman; David Teal, Director, Legislative Finance Division; Alexi Painter, Analyst, Legislative Finance Division, Alaska State Legislature; Adam Berg, Staff, Representative Bryce Edgmon.

SUMMARY

HB 245 PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

HB 245 was SCHEDULED but not HEARD.

HB 249 ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

HB 249 was SCHEDULED but not HEARD.

HB 250 INDIV. INCOME TAX: CREDITS; RETURNS

HB 250 was SCHEDULED but not HEARD.

CSSB 196(FIN)

POWER COST EQ FUND: RESERVE ACCT;DIVIDEND

HCS CSSB 196(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN2 (CED); and one previously published fiscal note: FN1 (SFC for Various).

CSSB 210(FIN) am

COMMUNITY REVENUE SHARING/ASSISTANCE

HCS CSSB 210(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note from the House Finance Committee for Fund Cap; and one previously published zero fiscal note: FN1 (SFC for CED).

Co-Chair Thompson reviewed the agenda for the day.

[9:14:50 AM](#)

#sb196

CS FOR SENATE BILL NO. 196(FIN)

"An Act relating to the amount appropriated for power cost equalization; relating to the use of certain unexpended earnings from the power cost equalization endowment fund; and providing for an effective date."

Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for CSSB 196(FIN), Work Draft 29-LS1383\R (Nauman, 4/16/16). There being NO OBJECTION, it was so ordered.

[9:15:46 AM](#)

PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, relayed that after the cost of the power cost equalization program

(PCE) was paid, the current version would allow that excess earnings to be used in 3 ways: \$30 million would fund renewable energy grants, bulk fuel revolving loan fund, and the rural system power upgrades, any remaining funds would flow back to the PCE fund.

[9:17:11 AM](#)

Representative Edgmon believed that he understood what was being proposed in the legislation.

Representative Munoz requested another review of the changes to the legislation found in the current version of the bill.

Mr. Ecklund responded that the changes included that the excess earning of the PCE fund, after paying out the program costs, would go toward the \$30 million fund that would pay for the new community assistance program, a \$25 million fund for renewable energy grants, bulk fuel revolving loan fund, and the rural system power upgrades, any remaining funds would flow back to the PCE fund.

Representative Munoz asked how this version compared to the original bill.

Mr. Ecklund explained that the original bill had contained a mechanism that allowed for 50 percent of the excess PCE funds to be placed in the \$30 million fund for the community assistance program. The current version did not split out the percentages, but stipulated that the \$30 million be honored first with any additional PCE funds.

[9:19:21 AM](#)

Vice-Chair Saddler asked about the change in the assumed return on the fund from 7 percent to 5 percent.

Mr. Ecklund suggested that 5 percent was a more realistic number, while the 7 percent was more aggressive and volatile.

Representative Kawasaki asked whether the overflow funds would be replenished annually.

Mr. Ecklund responded that it would dependent on the actual returns. He stated that if there was a return of 6 percent,

\$17 million would be given to community assistance in FY 18, with no funds flowing to rural energy or back to PCE. He said that the money flow would be determined by future returns.

[9:21:02 AM](#)

Representative Kawasaki understood that any excess in a calculated year would first flow to community revenue sharing, up to \$30 million.

Mr. Ecklund stated that Representative Kawasaki was correct.

Representative Kawasaki understood that if the PCE in 2017 generated \$44 million, the balance going into the community revenue sharing account would be approximately \$5 million.

Co-Chair Thompson remarked that Mr. Teal was available to answer questions.

Representative Kawasaki spoke to fiscal note 2, which estimated the cost of funding the PCE program for FY17 at approximately \$40 million.

[9:23:14 AM](#)

AT EASE

[9:25:28 AM](#)

RECONVENED

Representative Kawasaki noted the change between the previous and current bill versions.

[9:26:25 AM](#)

Co-Chair Neuman stated that because the state no longer had revenue to "share" the community revenue sharing should now be called the community assistance program. He thought that the highest priority for the state should be to help communities across Alaska, particularly in rural Alaska, to support basic government services. He felt the formulation of the fund distribution was equitable.

[9:28:52 AM](#)

Representative Edgmon wanted assurances that the endowment would be protected with the fund.

[9:29:10 AM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, explained that the first priority of the program was to pay PCE. He relayed that in order to protect the fund the senate version of the bill would always put some of the excess earnings back into the fund. He said that the house version was exactly the same as the senate version, as long as excess earning exceeded \$55 million. He furthered that if the excess earnings were less than \$55 million, the house version favored community assistance up to \$30 million. He stated that the current version did not strongly protect the endowment because in years with excess earnings between \$0 and \$55 million, no money would be returned to the endowment.

Co-Chair Thompson queried how many times in the past the earnings had not exceeded \$55 million.

Mr. Teal replied that the earnings had fluctuated between negative 13 percent, to plus 24 percent. He said that he could not speculate what the earnings in the future would be, but pointed to the document titled, "PCE Endowment Analysis of SB 196 for CS" pages 1 and 2(copy on file), which offered a sampling of high positive, medium, low, and negative rates. He said that when there was an excess of \$55 million, the fund would be protected, and that the historical numbers would be of better use in predicting future income than the constant 6 percent.

[9:32:29 AM](#)

Co-Chair Thompson understood that the second page of the document used an average of 6 percent.

Mr. Teal stated that he was correct.

Representative Edgmon stated that previous legislation had changed the earning threshold of the fund from 7 percent, to achieve at least a 4 percent nominal return over a 5-year period. He felt that if the fund were managed less aggressively, reaching the \$55 million threshold would be a challenge. He asserted that speculation on reaching a 10 percent rate of return would be an academic argument.

[9:34:16 AM](#)

Mr. Teal stated that there were 2 things that should be considered in order to address the concerns. He referred to the change from 7 percent, to 5 percent, in Section 2 of the bill. He related that the change had nothing to do with the return on the fund, but was related to the payout rate. He said that even with negative returns, the 5 percent payout would go to PCE. He explained that bad return years would result in the PCE program being prorated.

[9:35:26 AM](#)

Representative Edgmon contended that the current version offered more protection to the PCE program because the excess was guaranteed to be put back into the corpus of the fund.

[9:35:59 AM](#)

Mr. Ecklund interjected that regardless of the assumed percentage of return, as long as the percentage was under 5 percent, the PCE program would receive a payout. He added that there were no guarantees in life; if the state experienced negative returns the legislature would face the choice of short funding the PCE program, taking more out of the PCE fund to fully fund the program, or using general funds to pay the PCE program.

[9:36:47 AM](#)

Representative Edgmon disputed that the original bill offered 4 steps that the money would have to take before being put back in the fund, the current bill version only offered 2 steps.

Mr. Teal thought the issue could be resolved by inflation proofing the fund. He agreed with Representative Edgmon that if there was less than \$55 million now, none of it went back to protect the PCE fund.

[9:38:28 AM](#)

Representative Gara surmised that the argument was whether the PCE fund would be used to primarily fund and protect the PCE fund, or whether the fund became primarily used to fund revenue sharing before protecting the fund. He asked

whether the fifth column of the chart reflected excess earnings above the PCE payment.

Mr. Ecklund responded in the affirmative.

Mr. Teal added that the column labeled "earnings" reflected the earnings that the earnings rate would produce. He noted that the next column listed program costs, which were not paid for out of earnings, but out of a 5 percent POMV. He stated that if earnings were negative in a year, the 5 percent payout would cover program costs. He felt that it was important to examine the last column on the chart in order to be sure that the payout did not exceed 5 percent because if it did PCE would be prorated. He stated that the negative 7.2 in the column, "2nd Prior Fiscal Year Earnings in Excess of Program Costs" was subtracted from \$33.2 million in earnings from FY15, meaning that there was no excess earnings in that year and no money would flow to any other accounts. He furthered that in FY 18, there were excess earnings of 17 million, which was the result of taking the \$58 million earned in FY 16, subtracting the \$41 million in program costs in FY 18 from the \$58 million earned in FY 16, which left \$17 million in earnings to be distributed. He noted that the entire \$17 million could go into community assistance, and if the number were larger, it would continue to go into community assistance - up to \$30 million. He relayed that if there were more than \$55 million total, the excess after community assistance and rural energy programs would be used to inflation proof the fund.

[9:42:09 AM](#)

CSSB 196(FIN) was HEARD and HELD in committee for further consideration.

Co-Chair Neuman asserted that there was not extra money in FY 17 for the renewable energy fund, bulk fuel fund, and rural power system upgrades. He contended that the highest priority should be community assistance, and that the solution should be that any excess funds after community assistance should be rolled directly back into the PCE.

Representative Edgmon hoped a resolution could be reached.

#sb210

CS FOR SENATE BILL NO. 210(FIN) am

"An Act relating to the community revenue sharing program; and changing the name of the community revenue sharing program to the community assistance program."

[9:43:39 AM](#)

Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for HCS CSSB 210(FIN), Work Draft 29-LS1593\N (Shutts, 4/14/16). There being NO OBJECTION, it was so ordered.

PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, explained that the only change to the bill was the effective date, which would leave the current revenue sharing formula in place for FY 17. He stated that when the bill took effect in FY 18, \$30 million would be distributed as a new community assistance program, as opposed to community revenue sharing. He noted the document in member packets, "SB 210: Community Assistance Payments FY 18-19"(copy on file).

[9:46:04 AM](#)

Representative Gara understood that the fund had been capitalized so that the annual payout would not disappear.

Mr. Ecklund responded that the fund had not been capitalized in the FY 17 operating budget, which meant that one-third, or \$38 million, of the \$115 million, would be distributed in FY 17 as community revenue sharing.

[9:46:50 AM](#)

Representative Gara queried the capitalization formula that had been used in the past.

Mr. Ecklund replied that current statute stated that whatever the balance of the fund, one-third had to be distributed until there was less than \$60 million in the fund. He stressed that under the current program, with no further capitalizations, the last community revenue sharing would be distributed in FY 18.

[9:47:50 AM](#)

Representative Gara asked what was being use to capitalize the fund in the past.

Co-Chair Thompson stated that general funds had been used.

Mr. Teal added that the capitalization of the fund came from progressive oil tax proceeds, and when oil prices fell and progressivity went away there was no funding source for the program. He furthered that if the price of oil did not increase the program would falter until prices increased; at the restart the program funding would be at the \$60 million distribution level.

Representative Gara wondered whether general funds had been used to capitalize progressivity after ACES.

Mr. Teal replied in the affirmative. He clarified that unrestricted general funds had been used under ACES, and were still being used, it was a matter of naming the source of the revenue. He added that the named revenue stream would be well in access of the funding for the program and would not contain phase out provisions for community assistance.

Representative Kawasaki queried the version of the Community Assistance Payments FY 16-18, Non-Unified Boroughs by Community, prepared by the Legislative Finance Division.

[9:51:15 AM](#)

ALEXI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, ALASKA STATE LEGISLATURE, clarified that the document dated April 15, 2017 included incorporated boroughs, which were eligible at an amount that was one-nineteenth the base of the program. He said that it had been requested that the committee see all communities that received distribution, some of which were unincorporated.

Representative Kawasaki understood that the Fairbanks Northstar Borough would receive \$1.93 million in addition to what Chena Hot Springs, Ester, Ester Dom, Fox, and Golstream combined would receive.

Alexi responded in the affirmative.

Vice-Chair Saddler asked Mr. Painter read the title of the document he was referring to, and then to explain what the document represented.

9:53:00 AM

AT EASE

9:55:15 AM

RECONVENED

Co-Chair Thompson clarified that the title of the chart being referred to was "SB 210 Community Assistance Payments FY 18-19."

Representative Kawasaki requested a chart that reflected the percentages side-by-side, year-by-year.

Vice-Chair Saddler asked what the second column on the chart, "SB 210 Distribution: \$30 million' represented.

Mr. Ecklund responded that the column represented the bill before the committee, with an effective date of January 1, 2017; the new community assistance program would come into effect in FY 18.

9:57:37 AM

Representative Gara expressed concerned about too deep of a cut to revenue sharing program.

Co-Chair Thompson purported that if action was not taken now, in two years revenue sharing would be zero.

Mr. Ecklund agreed.

Representative Gattis believed that the state had no revenue to share to support community assistance.

Representative Kawasaki stated that community revenue sharing had been established to support communities that were not directly involved in oil and gas development, or other resource development, to receive a share of the state's common interest resources. He expressed concern that the City of Fairbanks would receive public assistance when the revenue sharing had been intended for the aforementioned communities. He contended that many of the communities that participated in revenue sharing could not

institute and income tax, and might not have a tax base. He added that many of those communities raised revenue through sales taxes. He rejected the characterization that revenue sharing was public assistance for communities, and believed that the revenue sharing should continue even during times of fiscal uncertainty.

[10:01:03 AM](#)

Vice-Chair Saddler thought that those same communities that received extra petroleum dollars through revenue sharing during positive times should also be responsible to pay to make up for any deficit in revenues during times of low oil prices.

Representative Gara spoke to Anchorage's "weirdly worded tax cap." He said that a 67 percent reduction in revenue sharing would drive the need for other sources of revenue or cuts in Anchorage services equaling \$2.7 million.

Co-Chair Thompson wondered whether Representative Gara was referencing the numbers off of the correct chart.

Mr. Ecklund replied that he did not believe so. He added that the chart he was looking at reflected that the distribution for Anchorage under SB 210, in FY 18, would be \$4.473 million.

Representative Gara stated that he was referring to both charts. He apologized that he had been looking at the numbers for the Mat-Su. He noted that the current chart did not include historical comparisons.

[10:04:03 AM](#)

Co-Chair Neuman noted that the price of oil had been on the rise when revenue sharing had first been introduced, and the price for municipalities to heat homes and buildings had increased rapidly. He said that in the event of a drop in oil prices the intention had been to ramp-down the program. He stated that many communities in rural Alaska would not be able to survive without revenue sharing, which could end up costing more money if the state has to step in and manage those communities. He explained that the legislation would "lock-in" a community assistance program that would help communities plan their yearly budgets. He stressed that the state did not currently have any excess

revenue, which made it essential to make adjustments to the program. He expressed support for the current version of the bill.

Co-Chair Thompson expressed support for the current bill version. He reiterated that without the legislation, in two years the revenue sharing would end altogether. He stressed that the program supported the operating budgets of over 100 rural communities in the state. He lamented that if the program shut down the state would end up funding those budgets, or that the affected communities would shut down.

[10:08:41 AM](#)

Representative Gara relayed that he was not debating the legislation. He wondered whether Anchorage would be forced to raise property taxes in order to absorb the cuts to the program by FY 18. He thought that it would be useful to know that the community revenue sharing amounts were for all communities during previous time of low oil prices.

[10:10:13 AM](#)

Co-Chair Neuman admitted that he did not know what communities would do. He disagreed with Representative Gara about needing the information concerning what had happened in the past in order to move the bill.

[10:10:45 AM](#)

Representative Edgmon favored the approach of the bill. He did not believe that the distribution was equal for every community involved, but noted that the legislation had the support of the Alaska Municipal League.

Co-Chair Thompson expressed the desire to move the bill from committee.

Vice-Chair Saddler reviewed the fiscal note.

[10:12:08 AM](#)

Co-Chair Neuman MOVED to REPORT HCS CSSB 210(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

HCS CSSB 210(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note from the House Finance Committee for Fund Cap; and one previously published zero fiscal note: FN1 (SFC for CED).

[10:12:34 AM](#)

RECESSED

[6:54:17 PM](#)

RECONVENED

#sb196

CS FOR SENATE BILL NO. 196(FIN)

"An Act relating to the amount appropriated for power cost equalization; relating to the use of certain unexpended earnings from the power cost equalization endowment fund; and providing for an effective date."

[6:54:17 PM](#)

Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for CSSB 196(FIN), Work Draft 29-LS1383\R (Nauman, 4/16/16). There being NO OBJECTION, it was so ordered.

[6:55:17 PM](#)

ADAM BERG, STAFF, REPRESENTATIVE BRYCE EDGMON, spoke to the changes in the work draft. He noted that the only change was the reorder of the flow of how surplus earnings from the endowment would be spent. He said that the intent was to split the \$50 million, after the \$30 million had been paid out, and put half in the endowment and half into either the renewable energy fund, the bulk fuel revolving loan fund, or rural power system upgrades.

[6:56:32 PM](#)

Representative Edgmon relayed that the latest version addressed his concern about having some of the surplus money flow back to the endowment for inflationary purposes.

Co-Chair Thompson noted that many people had come together to craft a workable bill.

Representative Wilson queried the \$25 million cap written into the legislation.

Mr. Berg replied that the previous version allowed for \$25 million to flow to the renewable energy grant fund, among other funds, and the current version split the funds 50/50 between the endowment and the renewable energy grant fund; the renewable energy grant fund would be capped at \$25 million.

Representative Wilson offered an example of her understanding of how the fund functioned.

Mr. Berg offered the example that out of \$60 million, \$30 million would go to the community revenue sharing fund, \$15 million would go back into the endowment, and \$15 million would go to the renewable energy grant fund.

Representative Wilson hypothesized that out of \$100 million, \$30 million would automatically go to the community revenue sharing fund, leaving \$70 million left over, of which no more than \$25 million could be put back into the extra funds, and the remainder would go back into the PCE program.

Mr. Berg answered that she was correct in her hypothetical.

Representative Kawasaki pointed to the \$55 million to \$80 million change in the current bill version.

Mr. Berg replied that earlier version had used \$30 and \$25 million in order to get a total of \$55 million. He said that because the funds were now going to be split 50/50, the \$25 million would become \$50 million: \$50 million plus \$30 million is equal to \$80 million.

Representative Kawasaki surmised that those numbers were unlikely in a single year. He asked whether the 50 percent number had been modeled.

Mr. Berg responded that it had not been tested, but the outlook seemed positive after reviewing the history of the earnings of the fund, the bill would assure that the endowment was replenished at 2.5 percent interest on the fund's current balance.

[6:59:58 PM](#)

Representative Gattis wondered about years when there could be no earnings on the fund.

Mr. Berg replied that the worst case scenario would mirror the current situation; if enough earnings were not spun off to fully fund PCE payments then money from the endowment would be used, or the payments could be supplanted with general funds.

Representative Gattis asked whether the bill contained sideboards.

Mr. Berg responded that the bill only addressed the PCE payout. He added that the legislation would not stop the legislature from using the PCE fund at their discretion.

Representative Gara asked whether the sponsor of the bill supported the current bill version.

Mr. Berg responded that he could not speak to whether the sponsor supported the current version of the bill.

Vice-Chair Saddler addressed the 2 fiscal notes attached to the bill.

[7:02:46 PM](#)

Representative Wilson asked how the \$17 million, reflected in FN 1, had been estimated.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, explained that FN 1 was for illustrative purposes only. He stressed that there was no way to know what the excess earnings would be. He noted that \$17 million would not fully fund the community assistance program. He said that the numbers could range from \$30 to \$80 million, and that the fiscal impact for FY17 would be zero either way.

Representative Wilson asked whether the \$17 million would have originally been paid out of the general fund.

Mr. Teal replied in the affirmative. He said that there would be a reduction of general funds for up to \$0 million for community assistance and up to \$25 million for rural energy programs. He stated that the fiscal note could show

a fund change of anywhere from zero to \$55 million. He stated that the \$17 million was likely a low estimate.

Mr. Teal furthered that if the earnings were zero, or negative, there would be no replacement of unrestricted general funds with excess earning from the PCE fund. He said that there would be budget variations from year-to-year, some years could have no excess earnings and the state may decide to appropriate undesignated general funds to the community assistance program, or not fund it in that year; the appropriation process was up to the legislature.

[7:06:40 PM](#)

Co-Chair Neuman MOVED to REPORT HCS CSSB 196(FIN) out of Committee with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

HCS CSSB 196(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN2 (CED); and one previously published fiscal note: FN1 (SFC for Various).

[7:07:10 PM](#)

AT EASE

[7:08:30 PM](#)

RECONVENED

Co-Chair Thompson discussed housekeeping and RECESSED to the Call of the Chair. [Note: the meeting never reconvened].

#

ADJOURNMENT

[7:09:20 PM](#)

The meeting was adjourned at 7:10 p.m.