

SENATE FINANCE COMMITTEE
March 13, 2018
9:01 a.m.

9:01:02 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Donny Olson
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Juli Lucky, Staff, Senator Anna MacKinnon; Former Representative Bill Thomas; Former Speaker of the House John Harris; Former Commissioner of Department of Labor and Workforce Development Diane Blumer; David Teal, Director, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

Meera Kohler, Alaska Village Electric Co-op, Anchorage.

SUMMARY

SB 108 MEDICAL CARE/LICENSING/MEDICAL BOARD

CSSSSB 108(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from Department of Commerce, Community and Economic Development.

PRESENTATION: POWER COST EQUALIZATION and COMMUNITY ASSISTANCE OVERVIEW - DAVID TEAL

#sb108

SENATE BILL NO. 108

"An Act relating to the State Medical Board; relating to the licensing of physicians, osteopaths, and podiatrists; and providing for an effective date."

9:01:53 AM

Co-Chair MacKinnon recalled the history of discussions on the bill in committee.

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for SSSB 108, Work Draft 30-LS0740\T (Radford, 3/9/18).

Co-Chair MacKinnon OBJECTED for discussion.

JULI LUCKY, STAFF, SENATOR ANNA MACKINNON, recalled that during a previous hearing on the bill, there had been an issue regarding a possible trademark infringement using the title "Certified Medical Assistant" or the initials "CMA."

Ms. Lucky discussed the Explanation of Changes for the CSSSSB 108(FIN), (copy on file):

Page 3, lines 26-27: adds the ability for the department to recognize a national certification to satisfy "some or all of the qualifications for state certification."

Ms. Lucky elaborated that the change allowed the board to examine the national certification necessary to earn the trademarked title and apply those qualification to state certification.

Ms. Lucky continued to discuss the changes to the bill:

Page 4, lines 13-15: rewords section 5, which provides a penalty for practicing without a license, to remove the title "Certified Medical Assistant" and "C.M.A." to avoid possible trademark infringement.

Page 6, lines 11-14: inserts a new section 13 clarifying that "certification" of the listed professions is considered "licensure," ensuring that these individuals have access to the Prescription Drug Monitoring Program (PDMP).

Ms. Lucky explained that while the section was being drafted it was noticed that the term "Certified Medical Assistant" still appeared the bill; the amendment that will be presented later in the meeting rewords the section to say, "medical assistant certified."

Ms. Lucky continued to discuss the changes:

Technical and conforming changes are on:

- Page 4, lines 1-2; Page 4, line 10; Page 6, line 5: reworded to remove the phrase "certified medical assistant"
- Page 6, lines 28 & 29: changed section numbers

[9:05:17 AM](#)

Senator Stevens referenced a backlog of 290 applicants and wondered how the approval of licensure would be sped up.

Ms. Lucky stated that the backlog was not addressed in the CS.

Co-Chair MacKinnon interjected that once the CS was before the committee the sponsor could be questioned.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, it was so ordered. The CS for SSSB 108(FIN) was ADOPTED.

Senator Stevens restated his question.

Senator Giessel stated that there was nothing to guarantee that the backlog would be completely alleviated. The bill could allow for clean applications to be routinely approved by the executive secretary.

Senator Stevens imagined Senator Giessel would monitor the application approval process.

Senator Giessel replied in the affirmative.

Senator Olson asked if the sponsor was supportive of the CS.

Senator Giessel answered in the affirmative.

Vice-Chair Bishop hoped that adding two more positions to the process would enable more expeditious licensure.

[9:08:08 AM](#)

Co-Chair MacKinnon added that the fiscal note reflected a receipt service function that would add two positions.

Vice-Chair Bishop MOVED to ADOPT Amendment 1:

OFFERED IN THE SENATE
BY SENATOR MACKINNON
TO: CSSSSB 108(FIN), Draft Version "T"

Page 6, line 14:

Delete "certified medical assistant"

Insert "medical assistant certified"

Co-Chair MacKinnon OBJECTED for discussion.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, it was so ordered. Amendment 1 was ADOPTED.

[9:09:03 AM](#)

Vice-Chair Bishop MOVED to report CSSSSB 108(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSSSB 108(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from Department of Commerce, Community and Economic Development.

[9:09:36 AM](#)

AT EASE

[9:13:05 AM](#)

RECONVENED

Co-Chair MacKinnon recognized Former Representative Bill Thomas, Former Speaker of The House John Harris, Former Commissioner of Department of Labor and Workforce Development Diane Blumer, in the gallery.

^PRESENTATION: POWER COST EQUALIZATION and COMMUNITY ASSISTANCE OVERVIEW - DAVID TEAL

[9:13:37 AM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Community Assistance and Power Cost Equalization" (copy on file). He turned to Slide 2, "Community Assistance Programs: Historical Distributions (FY00-FY19)," which showed a bar graph depicting historical distributions of the Power Cost Equalization (PCE) and Community Assistance programs. He noted that the state had offered various financial assistance programs to communities since 1969. Some were dependent on need for services, while others were based on state revenue, population, and some on combined factors. Mr. Teal shared that the programs had changed over time. The first twenty years were a combination of the SAFE Communities program, and state revenue sharing. He directed attention to the left-hand bars on the graph, which showed the programs operating simultaneously, SAFE Communities providing \$20 million per year and state revenue providing \$10 million. He categorized those payments as low; in the 1980s payments reached an excess of \$100 million and at a time when the budget was half of today's - resulting in a larger proportion to communities. He relayed that over time the payments decline to \$30 million, which was where the graph began.

Co-Chair MacKinnon asked whether the state had begun to pick up costs for communities in other ways when the payments declined.

Mr. Teal responded in the affirmative. He noted that the two impacts were responsible for the reduced payout.

[9:16:24 AM](#)

Mr. Teal continued to address Slide 2. He shared that both state revenue sharing and SAFE Communities terminated in

2003, leading to 5 years of Energy Assistance programs. The first year, 2004, was temporary federal fiscal relief, followed by small amounts of energy assistance, growing to larger amounts of Municipal Community Energy Assistance. He related that during the Energy Assistance years there had been a debate over revenue sharing meant no state money meant no money for distribution. That argument favored ad hoc payments that were depended on the financial condition of the state, making funding levels a year by year decision. The other argument asserted that communities needed money that they could count on in advance and that the ad hoc method did not give communities time to plan for their local budgets. He stated that the push was for long-term predictable funding that resulted in the legislature establishing the Community Assistance fund as a compromise. Deposits to the fund depend on revenue, which have revenue sharing elements, but distributions to communities did not depend on revenue in the current year, rathe the balance in the fund. This meant that communities had a reduced payout of revenue in prior years had been low but there would be a known amount that communities could loan for, with a 3-year phase out. He said that there had been a \$60 million payout target, which had occurred for several years but in 2012-2013, state revenue allowed for extra money to be added on top of the fund distributions. Those payments have declined as revenue had decline and the \$60 million target was fading.

[9:19:41 AM](#)

Mr. Teal turned to Slide 3, "Community Assistance Fund Illustration," which showed a table that showed how the Community Assistance Fund worked. He noted that each year one-third of the balance of the fund was distributed. There would be a \$60 million distribution and a subsequent deposit of \$60 million to bring the fund back to the starting point of \$180 million. He relayed that with the crash of oil prices, in FY 15 the legislature deposited only \$52 million, bringing the balance to \$172 million, with a distribution of \$157.3 million. He pointed out that no money had been deposited in FY 16, which had resulted in a fund balance of \$114 million, with a distribution of \$38 million. He pointed out that communities knew of the decline in distribution a year before receiving the funds. He explained that the passage of SB 196 in 2016 had provided an alternative source of funding; it could be predicted that general funds were not a reliable source to

fund the revenue sharing element of the program, but changing the name to Community Assistance would recognize that the funding no longer depended on the amount of state revenue available, Community Assistance was simply a program providing assistance to communities. He added that alternative funding for the program from came from earning from the PCE endowment.

[9:22:10 AM](#)

Mr. Teal displayed Slide 4, "History of Power Cost Equalization":

- Established in 1985 to assist rural residents with energy costs
- At the time, urban communities benefited from state-subsidized energy projects such as the Four Dam Pool and Bradley Lake
- PCE Program directly subsidizes high energy costs for ratepayers

Mr. Teal recognized that it might seem odd that the PCE Fund and the Community Assistance Fund were related. He recalled that during the late 1970s and late 1980s there were large expenditures for energy projects, particularly hydro projects that benefitted urban areas, and the question was how rural areas could benefit from energy projects and the funds that had been put into subsidized power costs for urban areas. He explained that this was how PCE was born. He related that it was difficult to have large hydro projects that helped smaller areas because they were dependent upon expensive diesel generation. The PCE program took the average rates paid by residents in Anchorage, Fairbanks, and Juneau and the difference between the local communities' rates subsidized a portion of small community payments, with the limit of usage of 500 kilowatts (equivalent of approximately a \$50 electric bill in urban centers).

Mr. Teal reviewed Slide 5, "PCE Fund":

- Until FY01, PCE was funded through annual GF appropriations
- In FY01, \$100 million from the sale of the Four Dam Pool and from the CBR was used to capitalize the PCE Endowment

- \$182.8 million added in FY07 and \$400 million added in FY12
- GF funding was phased out and replaced with payouts from the PCE Endowment

Mr. Teal said that until 2001, PCE had been funded through annual appropriations of general funds, with a long period when the funding was capped at \$15.7 million annually despite higher program costs, the program was prorated during those years. In 2001, \$100 million from the sale of the Four Dam Pool and from the CBR, was appropriated to the PCE endowment fund, another \$182 million was added in 2007, and \$400 million was added in 2012. He said that the \$400 million was enough to fully fund the PCE program but because of the 3 to 4 year look back on the balance the \$400 million did not begin to fully fund the program until the 3-year phase in, or look back period, was fully implemented. He stated that 2015 was the first year that the general fund subsidy to cover program costs was eliminated.

[9:26:08 AM](#)

Mr. Teal showed Slide 6, "Power Cost Equalization Endowment Fund (Includes SB 196)," which showed a data table entitled "History and Projections (in Millions)." He reiterated that SB 196 had passed in 2016 that allowed PCE earnings from the endowment to be used for other purposes, specifically including Community Assistance and Rural Energy programs. He said that the rule was that if endowment earning in the second prior year exceeded program costs, 70 percent of the excess earning were available first to the Community Assistance program (up to \$30 million), then Rural Energy programs (up to \$25 million), and leftover funds would remain in the endowment. He relayed that the program had begun in FY 17 and looking back at the second prior year earnings showed \$33 million in earning to pay for \$40 million in program costs, leaving nothing for Community Assistance or energy programs.

Mr. Teal continued to look at Slide 6, noting that in FY 18, earnings were \$8.9 million, less than the cost of the program, with no money to distribute. He highlighted that in FY 19, earnings on the endowment (from FY 17) were \$112 million, with program costs at \$33.1 million. There were two things to consider: a huge increase in earnings, and a decrease in program cost. He shared that the \$112 million

in earnings left \$79 million in excess after paying for the PCE program; \$55 million of the excess funds was first distributed through the Community Assistance program, followed by Rural Energy programs, leaving \$24.2 in the fund and bringing the balance to over \$1 billion.

[9:29:19 AM](#)

Mr. Teal continued to discuss Slide 6. He stated that in the future, a 6 percent earnings rate would generate some funds, but not the full \$30 million for Community Assistance. He said that if the state were to earn 6 percent annually the amount of money for Community Assistance would be roughly \$20 million per year, leaving the legislature to find an alternative source for the mission \$10 million, presumable general funds.

Mr. Teal changed the earnings amount on the graph from 6 to seven percent. He observed that the change would allow money to be deposited to the Community Assistance program; it would take 4 or 5 years before the \$30 million was achieved, which would be distributed to Rural Energy programs. He relayed that based on projected revenues of the Permanent Fund, it was likely the Community Assistance would not be fully funded from the PCE program for a number of years. He stressed that earning was volatile, and some years would be fully funded, but not for several years.

Senator Olson asked why there was such a spike in FY 17, and what looked like a loss of \$20 million.

Mr. Teal observed that there were variable earnings; in some years the fund lost money and some years it made a lot of money. He stressed that it depended heavily on earnings.

[9:32:36 AM](#)

Co-Chair MacKinnon recalled that the Senate Finance Committee had advanced 2 pieces of legislation that spoke to the issue.

Co-Chair Hoffman thanked Co-Chair MacKinnon for her guidance on SB 196, which had recognized the state's financial problems and reduced the Revenue Sharing program down to \$30 million and renamed it the Community Assistance program, while examining how the excess earnings of the PCE

endowment should be spent. He believed that the program provided a mechanism where excess earning could be used for additional programs. He queried the discussion as to whether the PCE Endowment Fund was overcapitalized.

Mr. Teal thought it was important to define 'overcapitalized,' which he thought meant spinning off more earnings than were necessary to support the intended programs. He continued that looking at a 7 percent future return, Community Assistance would not be fully funded until 2024. He stated that after paying for PCE and Community Assistance costs the endowment was supposed to be spinning off enough to put \$25 million into Rural Energy programs. He lamented that the state was a long way from reaching that goal. He did not believe that overcapitalization would be an issue until as early as 2030.

[9:36:04 AM](#)

Senator von Imhof discussed the variability of earnings and payments. She wondered whether there was a recommendation to smooth out the payments and make them more predictable.

Mr. Teal thought that payouts to communities could be very stable. He moved back to slide 3 and contended that as long as the \$30 million deposit was equal to the \$30 million payout - Community Assistance was extremely stable. He related that the problem was that the PCE endowment was not guaranteed to spin off enough money to meet the \$30 million, which would require use of the general fund to make up the difference. He said that if no more money was allocated by the legislature, the fund balance and payout would drop but communities would have a year to plan for that and a 3-year phase out of the program. He did not suggest that the Community Assistance program should live or die by PCE earnings, which he believed would maintain the volatility of the payments. He said that it would be up to the legislature to deposit money into the Community Assistance program in years in which earnings were insufficient.

Senator von Imhof asked whether payments could still be volatile, even with a larger endowment, because the market was volatile. She hoped that management of the fund could make it more stable.

[9:39:30 AM](#)

Co-Chair MacKinnon asked to isolate the two issues. She said that PCE had undergone multiple changes over the past 5 years. One of those changes had been in the area of risk reduction. She mentioned legislation sponsored by Co-Chair Hoffman.

Co-Chair Hoffman thought the difference was from 7.5 to 6 percent estimate rate of return. The concept had been to invest in less risky investment to provide the lower rate of return.

Co-Chair MacKinnon reiterated that while the fund grew over its first 15 years, the funds financial advisors were deploying resources into investment portfolios that had higher rates of return accompanied by greater risk. The committee had passed a bill to reduce interest rates with the goal of lowering risk and stabilizing earnings. She admitted that she was surprised to see the growth in the PCE endowment but believed that the pattern would not continue. She stressed to the committee that in future years Community Assistance would require a general fund appropriation to keep the balance whole or prepare for the 3-year down down of the program for communities.

Co-Chair MacKinnon returned to Slide 6. She noted that total program costs remained fixed at 33.1 million after FY 19, which was lower than costs from FY 18. She wondered whether the number was unrealistic. She asked whether the PCE program was based on kilowatt hours used plus administrative expenses or on a fixed dollar fee.

[9:43:44 AM](#)

Mr. Teal replied that future costs would be determined by the price of fuel in rural areas because that would determine the cost of electricity. He said that Juneau and Anchorage had fairly fixed fuel prices; Fairbanks was more reliant on fossil fuels and their price was higher and more variable. He reiterated that future costs would depend on fuel prices, he did not believe that administrative costs would change from year to year. He said that the number was not based on individual usage, 500 kilowatt hours per month was minimal. He reiterated that the amount of the rate subsidized was determined by the cost differences between hydro and gas power versus diesel power.

[9:46:53 AM](#)

Co-Chair MacKinnon asked whether a cap on kilowatt usage for individual consumers benefitting from PCE programs.

MEERA KOHLER, ALASKA VILLAGE ELECTRIC CO-OP, ANCHORAGE (via teleconference), responded that the cap was 500 kilowatt hours per month. She said that the floor was the base rate that everyone had to pay, which was currently \$.18 per kilowatt hour. She furthered the PCE was calculated by 95 percent of the value of the difference between the utilities cost of power and the \$.18 floor. She said that the typical rate in villages was \$.21 to \$.22 for the first 500 kilowatt hours. The price for some villages increased to \$.48, and as high as \$.72, because fuel had to be flow in.

Co-Chair MacKinnon noted the cap in the kilowatt usage.

[9:49:16 AM](#)

Senator Stevens stressed the energy benefits for Alaskans that had been achieved over the previous 30 years. He referenced the Bradley Lake Dam, which effected Homer and the Kenai Peninsula. He spoke to the Terror Lake Hydroelectric project, which had benefitted the area greatly. He hoped that others could benefit from similar projects in the future.

Vice-Chair Bishop discussed program costs and thought there was a direct correlation between program costs and allocations to rural energy programs. He lamented that there was not more funding for energy projects in the state.

Co-Chair MacKinnon agreed that energy projects had benefits to offer the state.

[9:51:43 AM](#)

Senator Stevens relayed that Kodiak had reduced the use of fuel to 1 percent and was at 99 percent renewable energy.

[9:52:15 AM](#)

Co-Chair MacKinnon mentioned tax credits, for urban areas such as the Cook Inlet Basin. She discussed that tax

credits had been used to secure energy in the Railbelt area, which provided lower cost energy than would have otherwise been available. She noted that there was a reason that the Senate had issued Cook Inlet Region tax credits to incentivize the base and provide energy to the Railbelt. She said that as the debate about whether the PCE fund should be available for appropriation, or protected to benefit all of Alaska, it was important to understand that the state came together to invest in Cook Inlet.

[9:54:07 AM](#)

Senator Micciche thought almost every area of the state had benefitted from energy programs. He thought much of PCE was used to lower the cost of relatively unsustainable sources of energy. He wondered if longer-term, sustainable opportunities were not available in rural areas, could the funds be used to fund other, ore sustainable projects.

Co-Chair Hoffman knew there were communities that were considering the viability of getting off diesel and considering hydro-power. He thought that changes in the program could be made once the demand in rural areas had been reduced.

[9:56:52 AM](#)

Co-Chair MacKinnon noted that Co-Chair Hoffman and herself served on the Alaska Renewable Energy Advisory Board. She noted that AEA had adopted criteria that examined the costs of individual communities and the return on investment. She thought the committee needed to be aware that the environment was affected in a positive way, but not always the cost of fuel supply. She said that if a state facility was the center of a community it could be the anchor tenant and cost savings were not realized. She elaborated on her point about why costs did not always go down under energy programs.

[9:59:16 AM](#)

Senator von Imhof summarized her understanding of the two issues under discussion; revenue and expense. She expressed appreciation for predictability.

[10:01:02 AM](#)

Mr. Teal surmised that the excess earnings were currently determined by earnings, which were volatile, and the amount available could be stabilized by moving to an endowment model rather than an earnings model.

Mr. Teal looked back at the interactive graph that was shown on slide 6. He said that if the state paid out 5 percent of market value there would be up to \$20 million per year, on a stable basis, available for Community Assistance. He said that going to an endowment model could make it so that general fund need is more stable. He added that the endowment was currently large enough to consider making the switch.

[10:02:45 AM](#)

Co-Chair MacKinnon reminded that the current year was unique because of high earnings in FY 17. She stated that there would be some money from PCE to help reduce the general fund payment and maintain the program.

Senator Micciche looked at the table on slide 6 and was curious about the average earnings from FY 04 to FY 17.

Co-Chair MacKinnon estimated 10 percent.

[10:04:08 AM](#)

AT EASE

[10:04:23 AM](#)

RECONVENED

Mr. Teal stated that the average earnings from FY 04 to FY 17 were roughly 9 percent.

Senator Micciche pointed out that an endowment model at 5 percent was proven to be an adequately conservative model.

Co-Chair MacKinnon stated that there was a former committee member that had pointed out that there were individuals in the state that did not benefit from the PCE program or the Cook Inlet tax credits. There were people in rural parts of Mat-Su that believed they did not benefit from investments the state made in other energy sources.

[10:06:22 AM](#)

Senator Micciche thought that the credits had benefitted Alaskans.

Co-Chair MacKinnon knew that there were many perspectives on policy decisions made by the legislature. She thought that the discussion of energy projects had been thorough and inclusive.

Co-Chair Hoffman thought energy costs continued to be an issue for all areas of the state. He thanked the committee for working on the issue. He pointed out that even though Alaska was a major provider of energy to other areas, the state continued to have very high energy costs. He thought that the state would benefit from a natural gas pipeline. He thanked people in urban Alaska for recognizing and supporting the energy needs of rural Alaskans.

[10:10:26 AM](#)

Senator Olson echoed the remarks of Co-Chair Hoffman. He lamented that the rural population of Alaska was at risk due to the cost of energy. He expressed thanks to his late predecessor Senator Al Adams for his work on the issue.

[10:11:31 AM](#)

Co-Chair MacKinnon expressed her appreciation for members of the committee who had worked in the issue, past and present.

Co-Chair MacKinnon discussed housekeeping.

#

ADJOURNMENT

[10:13:19 AM](#)

The meeting was adjourned at 10:13 a.m.

