

SENATE FINANCE COMMITTEE  
April 20, 2022  
9:05 a.m.

9:05:16 AM

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Natasha von Imhof  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Jesse Kiehl, Sponsor; Alexei Painter, Director, Legislative Finance Division; Erin Shine, Staff, Senator Click Bishop.

PRESENT VIA TELECONFERENCE

Tiffany Larson, Director, Spill Prevention and Response, Department of Environmental Conservation; Jennifer Currie, Chief Assistant Attorney General, Department of Law; Connor Bell, Fiscal Analyst and Economist, Legislative Finance Division; Curtis Thayer, Executive Director, Alaska Energy Authority; Bert Houghtaling, Self, Big Lake.

SUMMARY

SB 121 PFAS USE & REMEDIATION; FIRE/WATER SAFETY

SB 121 was HEARD and HELD in committee for further consideration.

SB 199 PERM FUND; PERMANENT FUND DIVIDEND

SB 199 was HEARD and HELD in committee for further consideration.

SB 243 RAISE POWER COST EQUALIZATION

SB 243 was HEARD and HELD in committee for further consideration.

#sb121

SENATE BILL NO. 121

"An Act relating to pollutants; relating to perfluoroalkyl and polyfluoroalkyl substances; relating to the duties of the Department of Environmental Conservation; relating to firefighting substances; relating to thermal remediation of perfluoroalkyl and polyfluoroalkyl substance contamination; and providing for an effective date."

[9:05:59 AM](#)

Co-Chair Bishop relayed that it was the second hearing for SB 121. It was the committee's intention to hear a presentation from the Department of Environmental Conservation (DEC) and then hear from the sponsor.

[9:06:49 AM](#)

TIFFANY LARSON, DIRECTOR, SPILL PREVENTION AND RESPONSE, DEPARTMENT OF ENVIRONMENTAL CONSERVATION (via teleconference), discussed SB 121. She defined that polyfluoroalkyl substances (PFAS) was a family of 5,000 to 10,000 manmade chemical compounds that were carbon-bonded to fluorine, which was one of the strongest bonds known to exist. She continued that PFAS were water, oil, and heat resistant, and water soluble. Additionally, PFAS persisted in the environment and bioaccumulated and magnified. She stated that while the department had some concerns with the bill, DEC appreciated the sponsor Kiehl bringing attention to the very important topic.

Ms. Larson discussed what DEC had done in the absence of legislation to protect the environment, which included listing PFAS and Perfluorooctanoic acid (PFOA) as hazardous substances. She cited that in 2016, Alaska was one of the first states to promulgate soil and groundwater cleanup

levels for two PFAS compounds. In 2019 the department incorporated (through its technical memo) the use of a lifetime health advisory at of 70 parts per trillion for PFOA and PFOS, individually or combined. Since 2018, DEC and the Department of Transportation and Public Facilities (DOT) had been voluntarily testing drinking water wells at airports required to use aqueous reforming foam. As part of the effort, there were procedures developed for alternate drinking water when needed.

Ms. Larson asserted that DEC was actively working on the issue and had published a strategic road map in fall of the previous year. There was a science advisory board reviewing documents for PFAS and PFOA that would likely set a lower lifetime health advisory. The draft report was expected to be released the following May and was expected to reduce the lifetime health advisory by an order of magnitude, at or near 7 parts per trillion or lower.

Ms. Larson noted that in fall of 2022, the Environmental Protection Agency (EPA) expected to issue a proposed rulemaking for the National Primary Drinking Water Act regulations for PFOA and PFAS, with the final rule in 2023. In winter of the current year, the EPA expected to publish its ambient water quality criteria and begin identifying PFAS in categories versus regulating in a compound-by-compound basis. She reiterated that there were 5,000 to 10,000 compounds in the PFAS family, so science was moving towards categorical regulation. In the summer of 2023, the EPA would have a final rulemaking, designating PFOA and PFAS in the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), known also as Superfund.

[9:10:27 AM](#)

JENNIFER CURRIE, CHIEF ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW (via teleconference), wanted to discuss four legal issues with the bill. She highlighted that there were two distinct ways that DEC could identify a hazardous substance under state law, by the definition of "hazardous substance" or by listing a hazardous substance in its promulgating regulation. She recounted that in instances where DEC had found a substance as hazardous according to definition and not by regulation, there had been responsible parties that had tried to eliminate liability by arguing the substance was not in regulation as

hazardous. She suggested that listing hazardous substances in statute would lead to responsible parties trying to avoid liability by claiming that a valid determination of another hazardous substance must be in statute.

She discussed DEC's required disposal of PFAS as proposed in the bill and cited the potential creation of contaminated sites that could cause future state liability. She mentioned the federal government's sovereign immunity from lawsuits and the difficulty of obtaining a waiver. She contended that any provision that named the federal government under state statute would be subject to challenge unless there was a valid waiver from Congress, and it was likely the state would have to enter into costly litigation to hold the federal government liable.

Ms. Currie continued her testimony. She pointed out that it was unclear as to whether the bill declared PFAS substances as hazardous substances under state law, as it was only referred to as "PFAS substances." She noted that DEC's liability statutes only imposed joint and several liability upon the release of "hazardous substances."

[9:13:37 AM](#)

Ms. Larson discussed challenges that existed with DEC in implementing the bill. She mentioned the lack of a database for the firefighting foam (containing PFAS) used in the state. She mentioned potential liability associated with disposal of PFAS. She asserted that there was no mechanism for DEC to accept, handle, or dispose of any amount of PFAS. She asserted that the bill would require DEC to apply unnecessary and expensive administrative procedures without changing the monitoring requirement. She stressed that DEC had and used the authority to require responsible parties to respond to PFAS contamination, and to regulate hazardous substances. She thought to statutorily declare any substance as a pollutant could "jump ahead of the science," and could also take the decision-making out of the hands of DEC's technical experts.

Ms. Larson relayed that the department understood the public's concern regarding PFAS, and the desire to have clear lines of safety. She continued that the scientific community was still working to determine the critical levels of PFAS in food, water, and bodies, and she

emphasized that the bill would not make the process happen any faster.

Senator Wilson wondered if the committee could get Ms. Larson's and Ms. Currie's testimony in writing.

Co-Chair Bishop requested the testimony in writing.

[9:16:53 AM](#)

Senator Olson thought the state was facing a significant chemical issue. He remarked that he liked the fact that the state had firefighting foams that were effective. He asked Ms. Larson about any alternatives she would propose in order to mitigate damage to future generations from the use of PFAS. He referenced the past use of asbestos.

Ms. Larson thought Senator Olson was asking if there was an alternative firefighting treatment substance.

Senator Olson asked what Ms. Larson's alternative was to the proposed legislation.

Ms. Larson did not have an alternative to put forward, but thought it was important that the state fell in line with science and gave researchers the ability to find the best way to regulate the substances. She reiterated that there were somewhere between 5,000 and 10,000 compounds in the PFAS family and contended that if the state continued to address the issue on a compound-by-compound basis, the conversation would last for generations. She asserted that the scientific community was putting forward a concentrated effort towards investigating the substances, and one of the efforts was to categorize the substances into a category based on research. She thought the best path forward was to follow the science and allow the substances to be categorized.

Senator Olson mentioned the sovereign immunity and differences between the state and federal levels of government. He asked Ms. Currie about her area of law expertise.

Ms. Currie stated she had been practicing law in the Department of Law's Environmental Section for 17 years, prior to which she had practiced environmental law for 5 years and worked in litigation for approximately 7 years.

Senator Olson asked Ms. Currie what she perceived as the best public policy pathway to protect the public from PFAS.

Ms. Currie was prepared to speak to legal issues but declined to address questions related to policy and thought the agency could better address the topic.

Senator Olson observed that people who had voiced opposition to the bill had made it apparent that there was no alternative other than changing statute. He emphasized the importance of addressing the problem.

[9:21:41 AM](#)

Senator Wielechowski heard DEC say that PFAS was listed as "hazardous" by the state. He asked what hazards the department had found were associated with exposure to PFAS.

Ms. Larson relayed that once the department would take the human health toxicological data and list PFAS as a hazardous substance, it would allow the department to regulate the substance and talk about ultimate disposal options.

Senator Wielechowski relayed that he was trying to gauge how hazardous the department believed PFAS to be and what kind of human health problems exposure caused.

Ms. Larson did not have a list of potential health problems caused by exposure to PFAS. She detailed that DEC used the EPA's and Agency for Toxic Substances and Disease Registry's assessments. She offered to provide a follow-up in writing.

Senator Wielechowski assumed that the department had listed PFAS as a hazardous substance and would be interested in knowing what the department believed the hazards to be. He mentioned the concern expressed over AS 46.033.45 (b) by the Department of Law, in that the department could get potentially involved in litigation with the federal government. He asked what agencies of the federal government required release of a fire-fighting substances containing PFAS.

Ms. Larson believed the Federal Aviation Administration (FAA) required testing of PFAS substances at federally certified airports.

Senator Wilson asked about current state mapping of PFAS-contaminated sites.

Ms. Larson stated that there was a map published on the DEC website that identified all contaminated sites. Upon reporting, the sites were added to the database, and there was 100 percent mapping of known sites.

Senator Wilson asked about the sites that were not known and asked for an estimation of the ratio of known to unknown sites.

Ms. Larson could not speculate about unknown sites.

[9:26:02 AM](#)

SENATOR JESSE KIEHL, SPONSOR, appreciated the conversation and DEC's contribution to the discussion. He asserted that DEC had made some contributions over the years and the problems that the state had arose from two things. He asserted that the levels that DEC had set (for two chemicals only) were set at a much higher level than was safe. He agreed with a previous testifier from DEC who testified that the best way to protect health was to list thousands of the chemicals by class at lower levels, but the bill did not do so. He emphasized that the research was abundantly clear regarding PFAS substances, and there were still some questions about a class. The bill involved substances about which there was no question.

Senator Kiehl thought it was important to note that nothing in the bill would prevent DEC from setting lower limits, nor from regulating classes of chemicals.

Co-Chair Bishop thought he had heard Ms. Larson say that by May it appeared the level would go from 70 parts per million to 7 parts per million.

Senator Kiehl deferred to DEC in predicting what the EPA would do. He noted that the bill proposed to set limits for the two substances and 8 parts per million and 16 parts per million as the highest amounts the state could allow. He

cited that research showed with even more risk the limits could go lower.

Senator Kiehl objected to DEC's notions that the legislature should never declare anything hazardous by statute, which he thought the legislature did all the time. He cited that the DEC statutes declared crude oil (in uncontrolled release the environment), DDT, and other pesticides as hazardous. He emphasized that the bill did not propose a new or novel approach. He was sure that potentially responsible parties might come to court with an argument about other pollutants as the Department of Law had suggested. He thought the department would also say that the arguments had been unsuccessful in the past. He deferred to the department regarding the history of litigation.

[9:30:15 AM](#)

Senator Kiehl addressed the question of whether the bill should speak to federal agencies that required the releases being jointly and severally liable. He noted that the subject had been vigorously discussed in the Senate Resources Committee, and members of the committee had felt strongly that the party that required spilling of the substance into the environment should share joint and several liability. The provision did not reduce the state's ability to recover the costs of clean drinking water for Alaskans from other parties. He referenced the committee addressing lawsuits and emphasized that the provision in SB 121 was not significantly different than many things the legislature had done in challenging wrongdoing by the federal government.

Senator Kiehl summarized that there were other important provisions in the bill that would not be solved when the EPA got around to a more protective health standard. He mentioned protection for local fire departments and their liability, and the phase-out for the oil and gas industry. He referenced Senator Olson's remarks about safe replacements for fire-fighting foams for everything save for the oil and gas industry.

Senator Kiehl reminded that the bill gave the fire marshal the ability to only trigger the firefighting foam phase-out when there was a safe alternative available. He discussed the up to 25 gallons of substance take-back and provide a

way for small communities to get rid of the foam. He emphasized that the state had a lot of PFAS foam. He mentioned the large amounts of PFAS that DEC had warehoused at airports.

Co-Chair Bishop set an amendment deadline of Friday April 22, at five o'clock.

SB 121 was HEARD and HELD in committee for further consideration.

#sb199

SENATE BILL NO. 199

"An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

[9:33:33 AM](#)

Co-Chair Bishop relayed that it was the third hearing for SB 199, and the committee would consider fiscal modelling scenarios presented by the Legislative Finance Division (LFD).

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RECONVENED

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation "Fiscal Modeling: Senate Finance Committee Scenarios; Senate Finance Committee, April 20, 2022; Legislative Finance Division" (copy on file). He advanced to slide 2, "Outline":

- Review of LFD Modeling Baseline Assumptions
- Comparison of Senate Finance Committee Assumptions to LFD Baseline
- Fiscal Models Using Committee Assumptions

Mr. Painter detailed that the comparison of committee assumptions was different than the previous time he presented in order to reflect changes in the budget since that time.

9:35:00 AM

Mr. Painter spoke to slide 3, "Review of LFD Modeling Baseline":

- Legislative Finance's fiscal model is designed to show policy makers the longer-term impact of fiscal policy decisions.
- The baseline assumptions are essentially that current budget levels are maintained, adjusted for inflation. Policy changes are then applied against that baseline.
- Our default is to assume that statutory formulas will be followed.
  - This includes a statutory PFD beginning FY23.

Mr. Painter referenced slide 4, "Review of LFD Modeling Baseline (cont.)":

#### Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast.
  - This assumes \$101 oil in FY23, following futures market thereafter.
  - DNR oil production forecast projects that Alaska North Slope production will increase from 502.3 thousand barrels per day in FY23 to 576.6 thousand barrels per day in FY31.
- For the Permanent Fund, we use Callan's return assumption of 5.86% total return in FY22 and 6.20% thereafter.

Mr. Painter noted that the spring forecast was about a month old and the current futures market was very close to the spring forecast with a little flattening. He considered the spring forecast to be appropriate for use in the modelling.

Mr. Painter turned to slide 5, "Review of LFD Modeling Baseline (cont.)":

#### Spending Assumptions

- For agency operations, these scenarios assume the Governor's FY23 amended budget grows with inflation (2.25%).
- For statewide items, the baseline assumes that all items are funded to their statutory levels beyond FY23.
  - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, oil and gas tax credits.
- For the capital budget, we assume the Governor's FY23 capital budget grows with inflation (2.25%)
- For supplementals we assume \$50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year.
- For the PFD, we assume a statutory dividend is paid annually beginning FY23.

Mr. Painter considered slide 6, "LFD Modeling Baseline," which showed two bar graphs entitled 'UGF Budget/Revenue' and 'Budget Reserves; FY-ending Balance.' He mentioned that at the top there was a line showing the surplus/deficit in millions starting with FY 22 going to FY 31. The black numbers indicated surpluses in FY 22 through FY 24, and projected deficits from FY 26 and beyond. He highlighted that the graph on the left showed budget and revenue, with revenue shown in blue bars for traditional revenue from petroleum and non-petroleum sources and green bars for the percent of market value (POMV) draws. The other colors signified other draws from various savings accounts, most notably in yellow there was the Constitutional budget Reserve (CBR) and Statutory Budget Reserve (SBR), the state's main savings accounts.

Mr. Painter explained that the graph on the right showed savings accounts end-of-year balances, with the yellow showing combined CBR/SBR and the green showing the realized value of the Earnings Reserve Account (ERA). He summarized that the slide showed that with a statutory PFD that would pay about \$4,200 per person in FY 23, there would be a surplus (based on the governor's amended budget) of about \$700 million, but by FY 25 there would be a deficit due to projected oil price declines. The deficit would start at about \$300 million, changing to between \$500 million and \$800 million in subsequent years. Because of the surpluses in early years, savings accounts would grow by up to \$5 billion by the first year, so even with deficits the state would not need ERA overdraws for the scenario.

[9:39:11 AM](#)

Mr. Painter displayed slide 7, "Senate Finance Committee Scenarios":

Committee Chair asked for modeling with the following assumptions that differ from LFD's baseline:

- Capital budget baseline of \$400 million (instead of \$195.4 million)
- All oil revenues resulting from ANS prices beyond \$100/barrel deposited into Permanent Fund
- Agency operations assume FY23 SCS2 budget growing at 2.25%.
- Assume expiring federal funds are replaced with UGF and PERS healthcare is funded after FY23
- Varying PFD scenarios: statutory PFD, 50% of POMV, and SB 199 with trigger passing and failing.
- Deficits are first filled with K-12 Forward Funding. CBR/SBR deficit draws only occur after the entirety of Forward Funding is used to fill deficits.

Mr. Painter discussed the assumptions for the committee's requested modelling scenarios. He noted that when looking at the probabilistic model, the surplus size flattened out a bit because at a certain point the surplus from high oil prices got deposited into the Permanent Fund, which depressed the top of the range. He mentioned a stress test scenario that had agency budget growth at 5 percent, which was roughly equal to the amount the Senate Committee Substitute (CS) grew versus the FY 22 budget. He noted that in the CS, the PERS healthcare funding for FY 23 was deposited into the Pension Fund, but the scenario assumed it would go into the Healthcare Fund in future years.

Mr. Painter explained that the bill had a Permanent Fund Dividend (PFD) amount that would change based on a triggering mechanism that considered the presence of \$800 million in new revenues enacted. He would show scenarios with the new revenue and without.

Mr. Painter looked at slide 8, "SCS2 Budget":

The SCS2 budget has significant changes from the Governor's amended budget, including:

- \$60m FY22 supplemental appropriation to oil and gas tax credit fund.

- \$1,215m for Forward-Funding K-12 in FY23. Modeling assumes this funding is reduced to fill deficits.
- Added \$27m UGF to offset state agencies' increased fuel costs.
- Added \$300m FY22 supplemental ARPA revenue replacement. Remaining \$186m used in FY23.

Mr. Painter detailed that one of the uses of American Rescue Plan Act (ARPA) funding was to replace lost Unrestricted General Fund (UGF) revenue.

[9:44:06 AM](#)

Mr. Painter highlighted slide 9, "SCS2 Fiscal Summary," which showed a table. He noted that SB 199 would have a 50/50 dividend. He pointed out key figures on the table that left a roughly balanced budget: the ongoing pre-transfer surplus of \$937 million in FY 22, and \$43 million in FY 23. There was some use of savings that generated additional surplus, which in FY 22 resulted in \$1.2 billion post-transfer surplus, and in FY 23 resulted in a bit over \$200 million in surplus. He pointed out a combined total of about \$3.5 billion for SBR and Constitutional Budget Reserve (CBR) balances. When added to the K-12 forward funding, there was close to \$4.7 billion of liquid savings that could be used to fill future deficits.

Mr. Painter addressed slide 10, "Comparison of Senate Finance - Scenario to LFD Baseline," which showed a table. He noted that the LFD baseline essentially represented the governor's budget growing with inflation. In FY 23, there was a \$1.7 billion difference due in part to one-time K-12 forward funding. On an ongoing basis, the assumption difference was about \$450 million of additional spending, with half in capital expenditures and half in operating expenditures.

Senator von Imhof asked if the blue bars on the bar graph showed the governor's budget and asked if the amount included all the different amendments that had been proposed in the previous four months.

Mr. Painter answered in the affirmative and noted that the amount included the federal infrastructure bill and the amendments for recent salary adjustments.

Mr. Painter advanced to slide 11, "Oil Prices, FY22 to Date," which showed a line graph entitled 'ANS West Coast Price.' He explained that the spring forecast had shown oil price at its peak, and it had been volatile since. Earlier in the year the prices were lower, with a ramp-up before the Russian invasion of Ukraine. He highlighted that when looking at the fiscal modelling scenarios, the spring forecast assumed that oil prices would return to the pre-war level within a few years. He noted that volatility scenarios would show oil price at significantly higher and lower ranges.

[9:48:46 AM](#)

Senator von Imhof noted that the slide started showing the price of oil in July 2021 and thought if the graph been started two years prior it would have reflected greater volatility. She thought it was important to note that volatility in the price of oil was commonplace and mentioned the amount available to spend currently as compared to two years previously.

Mr. Painter thought Senator von Imhof had made a good point. He noted that the price of oil had briefly been zero two years previously, and then touched \$125/bbl. He thought when looking at scenarios and modelling, one could consider the extreme cases of volatility that had already occurred.

Senator von Imhof asked to go back to slide 10. She looked at FY 23, and thought it was important to note that the committee proposed to fund several things that the governor's budget had not, such as the Regional Educational Attendance Area (REAA) Fund, community assistance, and deferred maintenance. She thought the committee proposed to fund items that had not been funded for many years.

Co-Chair Bishop answered "yes." He noted that there was also a supplemental included in the total.

Mr. Painter stated that the supplemental was not included. He explained that the major difference in the lines on the graph was the K-12 forward funding of \$1.2 billion. Much of the additional spending used UGF for the Alaska Marine Highway System (AMHS) and \$400 million proposed for the capital budget.

Senator von Imhof asked to confirm that the largest chunk of additional spending proposed by the committee was \$1.2 billion for forward funding education.

Mr. Painter looked at slide 12, "Stress Tests":

- Two types of stress tests performed:
  - Budget stress test: grow agency operations and capital budget by 5% per year instead of 2.25%
  - Revenue stress test: use probabilistic modeling to simulate a range of possible oil prices and investment returns
- For each PFD scenario, we will show the non-stressed model output and the two stress tests

Mr. Painter discussed consideration of inflation rates.

[9:52:56 AM](#)

Mr. Painter showed slide 13, "Stress Test: 25th Percentile Example":

- Example of a single case, for which 25% of total cases see greater overall deficits.
- Example case has average oil price of \$77 and average Permanent Fund return of 7.0%

Mr. Painter pointed out the volatility on the graph. He directed attention to the graph on the right entitled 'Permanent Fund Total Return,' and commented that even though there were decent years in later years, the value of the Permanent Fund was reduced. He thought the sequence of returns for the fund was quite important rather than just considering a straight average. He noted that oil volatility and the sequence of returns in the model were not favorable. He thought deterministic modelling could be misleadingly positive versus the actual impact of volatility in the real world.

Mr. Painter referenced slide 14, "Statutory PFD - SFIN Baseline (2.25% Growth)," which showed two bar graphs. He explained that the scenario included the committee assumptions. He pointed out items on the bottom of the slide that indicated the cost of the PFD in the scenario and the amount per person.

[9:56:24 AM](#)

CONNOR BELL, FISCAL ANALYST AND ECONOMIST, LEGISLATIVE FINANCE DIVISION (via teleconference), addressed slide 14. He explained that the slide depicted a scenario showing a statutory PFD with a 2.25 percent growth rate of agency operations and capital budget. The scenario included a deficit of \$1.1 billion in FY 23, which was higher in the following years because of the \$1.2 billion in K-12 forward funding discussed earlier. He highlighted the grey bar on the graph. The forward funding was shown as an expenditure, and later several hundred million of the funding amount was used to fill deficits in FY 23. He pointed out the brown portion of the bar that showed ARPA revenue replacement filling the first few hundred million of the \$1.1 billion pre-transfer deficit. There were smaller deficits after FY 23, with deficits growing and then unplanned ERA draws beginning in FY 28. He pointed out that the graph on the right, 'Budget Reserves,' showed that the CBR hit the minimum balance of \$500 million in FY 27, after which the unplanned ERA draws began.

Mr. Bell turned to slide 15, "Statutory PFD - SFIN Baseline (5% Growth)," which showed an identical slide to slide 14, with the exception of 5 percent budget growth in agency operations and capital expenditure. He explained that the FY 23 budget was the same as the previous scenario, with the difference between the slides compounding over time. The deficits grew significantly, up to \$2.2 billion by the end of the period. The K-12 forward funding reduction filled the FY 23 through part of the FY 25 deficits, after which the CBR and SBR were relied on until FY 27 when you could see ERA overdraws. The realized ERA balance fell to about \$7 billion by FY 31 due to the sustained overdraws to the fund.

Senator von Imhof thought slide 14 and slide 15 indicated that inflation had a significant impact on expenses and could not be ignored. She was reminded of the importance of inflation-proofing the Permanent Fund corpus. She thought the committee should consider inflation growth rates. She thought it was wise to model different inflation rates because it was material.

[10:00:53 AM](#)

Mr. Bell considered slide 16, "Statutory PFD - Revenue Stress Test," which showed the statutory PFD in the probabilistic scenario.

Mr. Painter addressed slide 16 and pointed out the median deficit each year shown on the top. The left-hand graph was on a previous slide. The blue bar in the middle represented the median scenario, the green bars represented the 25th and 75th percentile scenarios, and the black line represented the 10th and 90th percentile. He expected the vast majority of scenarios would fall within the lines. He pointed out that in FY 23 there was a "bunching up" where the median, the 90th percentile, and the 75th percentile were shown in the same place because the impact of the \$100 per barrel draw into the Permanent Fund. Since the baseline forecast going forward was reduced, there was less compression in the graph.

Mr. Painter addressed the graph on the right, which showed the range of fiscal year-end realized ERA balances. The bottom of the slide showed a table with CBR and SBR balance probabilities, which were below a certain amount. In FY 23, there was a 100 percent probability that the combined CBR and SBR values were below \$4 billion, and by FY 31 there was a 90 percent probability. The other probability was that the CBR and SBR would be below \$500 million. For the models, LFD assumed that there would be at least \$500 million as a balance, so the scenarios had to overdraw the ERA. The scenario could also be interpreted as the probability of an ERA overdraw. In FY 23 the probability was fairly low at 21 percent, but the figure increased over time (as the revenue risk increased) to somewhere around 60 percent.

[10:04:34 AM](#)

Mr. Bell displayed slide 17, "50% of POMV to PFD - SFIN Baseline (2.25% Growth)," which showed the same three scenarios except for the 50/50 PFD, which was half of the POMV draw from the Permanent Fund. The first graph showed a baseline of 2.25 percent annual growth for agency operations and capital expenditures. The FY 23 budget was roughly balanced. He noted that there was an assumption of \$50 million in supplemental budget expense in FY 23, which would not show up in the fiscal summary. He noted that there was higher spending in FY 23, and FY 24 showed a significant surplus, which fell into deficits starting in

FY 26. The forward-funding reduction was sufficient to cover the deficits through FY 28, after which began CBR and SBR draws in FY 29. There were no overdrafts from the ERA in the scenario. He drew attention to the combined balance of CBR and SBR and realized ERA was over \$20 billion by the end of the period.

Senator Wilson commented that with the 50/50 PFD scenario, a low budget and modest revenues showed that the scenario could work.

Co-Chair Bishop referenced the following slide.

Mr. Bell highlighted slide 18, "50% of POMV to PFD - SFIN Baseline (5% Growth)," which showed a slide identical to slide 17 but for 5 percent in annual growth of agency operations and capital spending. He highlighted that the \$12 million FY 23 deficit was the same, with a roughly balanced budget. The deficit started to grow based on the different compounding spending growth. He pointed out deficit growth up to over \$1 billion by FY 28 and then up to \$1.6 billion to \$1.7 billion by the end of the period. Due to the significant reserves balance in the earlier period, the ERA was only overdrawn in the last two years of the scenario. He cited that the CBR/SBR and forward-funding reductions filled the deficits through FY 29.

[10:08:03 AM](#)

Mr. Bell looked at slide 19, "50% of POMV to PFD - Revenue Stress Test," which showed two graphs: 'Surplus/(Deficit) by Fiscal Year,' and 'Range of FY-End Realized ERA Balances.' He cited that median surplus and deficit shown was similar to what was shown two slides previously, but the amounts differed in later years. He pointed out that on the lefthand graph the median and 75th percentile were roughly the same with the assumption that any oil price over \$100/bbl would be deposited into the principal, which was only forecast for the first year. After FY 23, about 50 percent of the scenarios modelled showed between roughly \$1 billion to \$1.2 billion in deficits ranging to about \$500 million to \$1.5 billion in surpluses. The right-hand graph showed the median realized ERA balance slowly declining, with the ERA going to zero in the percentile.

Mr. Bell noted that in the absence of any ERA overdrafts, it was still possible for the account to draw towards zero as

in the more negative scenarios, such successive low Permanent Fund returns, and other factors combined with a poor market. He explained that it did not require ERA overdraws for the ERA to draw down to zero. At the 75th percentile the scenario showed the realized ERA balance growing up to and beyond \$30 billion. He pointed out that the bottom row of figures showed the CBR/SBR balance probabilities.

[10:11:49 AM](#)

Mr. Bell addressed slide 20, "SB 199, Trigger Succeeds - SFIN Baseline (2.25% Growth)," which showed SB 199, first depicting three different models with the assumption that the bill's trigger provision succeeded and \$800 million in new revenue was instituted in FY 27. The funds would be added to the baseline revenue assumption for each year. Under the scenario the PFD would be 25 percent of the POMV draw until FY 27, after which the PFD would grow to 50 percent of the POMV. He noted that the bottom of the slide showed the PFD at \$1600 per person in FY 27, growing to \$3200 per person in FY 28 when there was a change in the PFD formula. There were surpluses throughout the period, with no need for ERA overdraws or use of the SBR and CBR.

Senator Wilson considered the history of the legislature and the history of legislative spending in significant revenue years. He asked if LFD felt that the numbers would stay static. He wondered if there was a historical spending ratio that could be applied to the models.

Mr. Painter thought the current year's budget could be used an example of what Senator Wilson was referencing; the growth was at 5 percent and the capital budget was growing significantly. He continued that starting in FY 05 and going through FY 14, the state operating budget had grown by an average of almost 8 percent per year. He acknowledged that the legislature had chosen to increase spending in times of greater revenue, which he emphasized was a policy choice that LFD could not predict. He added that there were still significant surpluses during the period, but spending also grew faster than inflation.

Co-Chair Bishop made the point that some of the spending went towards the deferred maintenance backlog. He asked how much of the 8 percent went to deferred maintenance.

Mr. Painter clarified that the eight percent increase was from the agency operations portion of the budget. He noted that some of the 8 percent of agency growth had gone into daily maintenance, but not necessarily into deferred maintenance. By FY 04, there had been about 15 years of flat or declining budgets. There was quite a bit of deferred growth. He noted that employee wages had not been increased in several years, and there was faster growth in contracts than previous years. He referenced pent-up demand for spending as a result of multiple years of flat budgets.

[10:16:15 AM](#)

Co-Chair Stedman referenced the mention of salary and benefit increases in all three branches of government. He thought the committee had to make some decisions. He thought there was upward pressure. He commented on the previous flat inflation and the current inflation spike. He thought it was most likely that the inflation trend would continue for several years. He thought the slide showed an optimistically low rate of inflation. He thought the committee should take the inflation's effect into account.

Mr. Bell advanced to slide 21, "SB 199, Trigger Succeeds - Budget Stress Test (5% Growth)," explained that slide 21 was similar to the prior slide but for the 5 percent growth assumption in agency and capital spending. In the scenario, there were strong surpluses during the first several years, but beginning in FY 28 there were deficits. The deficits were filled by the K-12 forward-funding reduction for the first two years, after which the CBR and SBR filled the deficits. There were no ERA overdrafts required and the ending CBR/SBR combined balance was about \$8 billion at the end of the period. He noted that the PFD amount was depicted on the bottom on the slide and pointed out that it jumped up to 50 percent of the POMV in FY 28 like the prior slide. He noted that the orange bars on the graph on the left showed the \$800 million in new annual revenue as part of the plan.

[10:20:27 AM](#)

Mr. Bell showed slide 22, "SB 199, Trigger Succeeds - Revenue Stress Test," which included the \$800 million in new revenue and the 25 percent POMV dividend that jumped to 50 percent in FY 28. With the probabilistic modeling, in FY 23 there was a range of a \$1 billion deficit to an \$800

million surplus. He pointed out that since any revenue over \$100/bbl went to the Permanent Fund principal, the maximum surplus would be \$830 million. The following three years showed a range of \$2.5 billion to zero surplus. The jump-up in FY 27 was due to the institution of the first year of the \$800 million in new revenue while the higher PFD had not started yet. Beginning in FY 28 there was a similar range of between \$300 million to \$500 million in deficits and \$1.5 billion surpluses in half of the cases. The graph on the right showed that there were only ERA overdraws in about 1 percent or 2 percent of cases per given year. There was still some chance of the ERA going to zero if there were poor returns, but there was also a plausible likelihood of the ERA exceeding \$30 billion. The assumptions also showed a high likelihood (about 93 percent) that the CBR/SBR combined total became greater than \$4 billion in the later years.

Mr. Bell spoke to slide 23, "SB 199, Trigger Fails - SFIN Baseline (2.25% Growth)," which modelled the bill effect assuming the trigger failed, no new revenue was instituted, and the PFD was 25 percent of the POMV for all years. He pointed out the PFD per-person amount at the bottom as \$1,200 in FY 23, growing to about \$1,700 per person in FY 31. There were surpluses shown throughout the period, with the 2.5 percent growth assumption. The combined reserve balances exceeded \$30 billion by the end of the period, and there was no reserve draw required.

[10:23:50 AM](#)

Mr. Bell discussed slide 24, "SB 199, Trigger Fails - Budget Stress Test (5% Growth)," which showed the same model as the previous slide but with 5 percent growth rather than 2.5 percent growth. He cited deficits starting in FY 28, with healthy reserves balances and about \$100 million to \$500 million in deficits per year.

Senator von Imhof thought the previous two slides showed how inflation affected the long-term forecast. She thought it was important for the committee to consider at least a decade or two. She remarked on the compounding effect of inflation. She emphasized that she had a problem with taxing people in order to pay a dividend. She pointed out that SB 199 had a taxation component in order to pay a dividend.

Mr. Bell showed slide 25, "SB 199, Trigger Fails - Revenue Stress Test," which showed a 25 percent POMV dividend for all years, with the probabilistic modelling. He noted that the median surplus and deficit was similar to three slides prior. The graph on the left, 'Surplus/(Deficit) by Fiscal Year' showed that in FY 23, one could see the deficit range from \$1 billion to \$800 million in surplus until FY 27. The range was similar throughout the period, with a balanced budget to a few hundred million in deficits ranging up to over \$2 billion or more in surpluses in 50 percent of the cases in each year. There was only about a one or two percent chance of requiring ERA overdraws in the scenario. The chart on the right was similar to that of three slides previously since there were no ERA overdraws.

[10:27:01 AM](#)

AT EASE

[10:29:02 AM](#)

RECONVENED

Co-Chair Bishop relayed that the amendment deadline for SB 199 was noon the following day.

SB 199 was HEARD and HELD in committee for further consideration.

#sb243

SENATE BILL NO. 243

"An Act relating to power cost equalization; and providing for an effective date."

[10:29:29 AM](#)

Co-Chair Bishop relayed that it was the first hearing of SB 243. It was the committee's intention to hear a bill introduction, consider public testimony, and set the bill aside.

[10:29:52 AM](#)

ERIN SHINE, STAFF, SENATOR CLICK BISHOP, read a bill introduction:

SB 243 proposes to raise the maximum kilowatt-hours available to residential customers for Power Cost

Equalization relief from 500 kilowatt-hours a month to 700 kilowatt-hours.

In your bill file you will find an analysis provided by the Alaska Energy Authority assumes that all residential customers can utilize the additional 250 kilowatt-hours, SB 243 will add approximately \$16 million to the yearly PCE payment.

Alaska's PCE program was established in 1984 and provides economic assistance to communities and residents of rural electric utilities where the cost of electricity can be three to five times higher than for customers in more urban areas of the state.

The PCE program was further established to assist rural residents at the same time state funds were used to construct major energy projects to assist more urban areas. As most urban and road connected communities benefit from major state-subsidized energy projects.

Rural communities not on the road system that are dependent on diesel fuel do not benefit from the large, subsidized energy projects, and PCE is a cost-effective alternative to provide comparable rate relief to rural residents. The program reimburses the utility for credits it extends to its customers.

The PCE program is funded by earnings of the PCE Endowment Fund, which the last Market Value as of March 31st, 2022, was \$1.1B, provides that five percent of the fund's three-year monthly average market value may be appropriated to the PCE Program.

As you may be aware the percent of market value draw on the PCE Endowment Fund not only funds PCE but also Community revenue sharing or community assistance, the renewable energy grant fund, the bulk fuel revolving loan fund or the rural power system upgrades.

Ms. Shine noted that bill packets contained a document from the Alaska Energy Authority (copy on file), which was an analysis that assumed if adding \$16 million to the yearly PCE payment if all residential customers could utilize the additional 250 kilowatt hours. She reminded that the POMV draw on the Power Cost Equalization (PCE) Endowment Fund

not only funded PCE but also the Community Assistance Program and the Rural Energy Grant Fund. According to the calculations done by LFD, it would take approximately a \$320 million appropriation to capitalize the PCE Endowment Fund to continue funding the waterfall programs from the draw.

[10:32:14 AM](#)

Senator von Imhof asked if more money went towards the PCE program, less funding would go towards Community Assistance.

Ms. Shine stated there was still a statutory formula that would be followed that was outlined in AS 42.45.085. There were certain triggers in the fund. She stated that the money that would go to the PCE Fund would fund the residential program first, after which the waterfall programs would be funded. The fund would need to be capitalized with some additional funds for the payments.

Senator von Imhof understood that the residential program would be the first item paid from the fund. She thought there was a consequence in that the trigger and other items mentioned in statute might not have adequate funding.

Ms. Shine noted that the executive director of the Alaska Energy Authority (AEA) was available for questions. She believed that the fund would be fine for the next couple of years.

Senator Hoffman stated that he had asked the LFD director to come up with a number to keep the fund intact. The number that Ms. Shine had mentioned in her presentation to achieve no changes in the programs would be \$320 million.

Senator von Imhof asked if the funding would be an additional \$320 million in a grant to the PCE Fund.

Senator Hoffman stated that the funds would be directed to the endowment.

Co-Chair Bishop relayed that the fund had a current balance of \$1.1 billion, and the \$320 million would be added to the endowment for a rough total of \$1.4 billion.

Senator von Imhof understood that others were looking at adding funds to other endowments like the Higher Education Trust Fund. She mentioned a homeless trust fund and a deferred maintenance fund. She thought there were many competing priorities.

[10:35:52 AM](#)

CURTIS THAYER, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY (via teleconference), noted that the information provided by Ms. Shine was correct. It was estimated that the program would cost an additional \$15.7 million per year by going from 500 to 700 kilowatts. There would be no additional administrative costs on the part of AEA. He offered that the last five years, the Endowment Fund earnings had ranged from \$48 million to \$155 million. The first bucket of money was the PCE Program, which was budgeted at roughly \$32 million, but there was budget language that allowed for the amount to increase based on the true cost.

Mr. Thayer mentioned community assistance at a cost of \$30 million. The only year that the Community Assistance program was not fully funded was in FY 20, when the earnings from the PCE Endowment Fund were only \$48 million. There was a cascading waterfall of funding for one of three items: rural power houses, the Rural Energy Fund, and capitalization of the Revolving Loan Fund. He discussed AEA's recommendation to the legislature about using \$25 million in funds. He could not comment on the \$320 million identified by LFD.

Co-Chair Bishop asked if bumping up the kilowatts to 750 was a new idea.

Senator Hoffman stated that the 750 kilowatts was the original amount that was utilized when the program was initially contemplated.

[10:38:23 AM](#)

AT EASE

[10:38:29 AM](#)

RECONVENED

Co-Chair Bishop OPENED public testimony.

Mr. Thayer stated he was available for questions. He stated that it would be easy for AEA to enact the change proposed in the bill. He noted that the fiscal note assumed that everyone in the program would use the 750 kilowatts, which meant the fiscal note was a very conservative estimate of what the additional cost would be.

Co-Chair Stedman asked for Mr. Thayer to discuss the community portion for non-residential homes and whether the amount was capped.

Mr. Thayer explained that the PCE Program was for residential customers only in the PCE-eligible community, and for community buildings up to a certain kilowatt. The program was not for commercial buildings or for commercial enterprises.

Co-Chair Stedman had heard a concern that one of the choke points was the community buildings, which seemed to consume more power and need more relief versus homes. He asked if Mr. Thayer could shed light on the issue.

Mr. Thayer stated that the issue had been of concern to AEA. He continued that AEA was currently undertaking an audit of all 193 communities in order to better understand what community buildings had been built since the last audit.

Co-Chair Stedman asked if the topic of community buildings should be a component of the legislation. He wondered if the legislature was ignoring part of the problem in rural Alaska by not accounting for rural buildings.

Mr. Thayer noted that the program did account for community buildings. He emphasized that AEA needed to work with communities to identify new or additional community buildings that were not currently in the PCE program system. He acknowledged that some community buildings were missing, and emphasized that AEA was reaching out to every community for the information, which would take most of the summer.

[10:42:35 AM](#)

BERT HOUGHTALING, SELF, BIG LAKE (via teleconference), spoke in opposition to the bill. He did not agree with adding funds to the PCE program. He thought the state was

catering to certain individuals. He wished that legislature would address those that had suffered during the pandemic. He was against increasing any funding for the PCE Program. He mentioned federal funds.

[10:44:22 AM](#)

Co-Chair Bishop CLOSED public testimony.

Senator Wilson asked for more information regarding the five-year plan of increase to the PCE Program and how it would affect the endowment. He asked how the increase would be funded.

Co-Chair Stedman thought that the committee could consider building the endowment up over time if the bill were to become law. He mentioned the option of having a trigger based on the price of oil. He thought there could be flexibility in funding the proposed increase to the program. He acknowledged that \$300 million was a significant amount of money.

Senator Wilson wondered how the other waterfall programs would be affected if there was not an increase.

Senator Hoffman preferred to fully fund the endowment so that the Community Assistance Program and other programs were fully funded. He thought there was merit to Co-Chair Stedman's comments but considered that delaying the fund increase would cause a loss of focus. He reminded that the 33rd legislature and the future governor was unknown. He thought the committee should give serious consideration to fully funding the endowment to at least \$300 million.

[10:48:04 AM](#)

AT EASE

[10:50:34 AM](#)

RECONVENED

Co-Chair Bishop set an amendment deadline for Friday, April 22, at five o'clock.

SB 243 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT  
10:51:16 AM

The meeting was adjourned at 10:51 a.m.