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# COMMITTEE REPORT

## SENATE

FURTHER: Finance

1/29/81

Date: \_\_\_\_\_

Mr. President:

The Committee on RESOURCES has had SSSB 25 establishing a power project revolving loan fund in the Alaska Power Authority

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for \_\_\_\_\_  same title
- and recommends \_\_\_\_\_  new title
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

MEMBERS HAVING  
OTHER RECOMMENDATIONS:

Bob Mulcahy

Alan Hansen

McGowan

Errol Bradley

V. T. ...

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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\_\_\_\_\_

Betty ...  
CHAIRMAN

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH 5  
JUNEAU, ALASKA 99811

The Honorable Bettye Fahrenkamp  
Chairperson  
Senate Resources Committee  
Room 113 - Capitol Building  
Juneau, Alaska

Re: Sponsor Substitute for Senate Bill No. 25

Dear Senator Fahrenkamp:

Sponsor Substitute for Senate Bill No. 25, an Act establishing a power project revolving loan fund in the Alaska Power Authority, amending the Alaska Power Authority Act, and requiring the Department of Revenue to invest the surplus power project revolving loan fund balance, was introduced in the Senate on January 29, 1981 and was referred to the Senate Resources and Finance Committees.

For the consideration of the Senate Resources Committee, I am enclosing a copy of a Fiscal Note prepared by Mr. Anselm C. Staack, Treasury Comptroller of the Department of Revenue concerning the proposed legislation.

Sincerely,



R. D. Stevenson  
Special Assistant

cc: The Honorable Don Bennett  
The Honorable M. E. Dankworth  
Co-Chairmen  
Senate Finance Committee

Joseph K. Donohue  
Deputy Commissioner  
Department of Revenue

Anselm C. Staack  
Treasury Comptroller  
Department of Revenue

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SPONSOR SUBSTITUTE FOR SENATE BILL No. 25

Title "An Act establishing a power project revolving loan fund in the Alaska Power Auth."

Requested by Senate Resources Committee Date 1/29/81

II. FISCAL DETAIL

Agency Affected Department of Revenue

Program Category Affected General Fund Unrestricted Revenues

BRU, Program, or Subprogram(s) Affected \_\_\_\_\_

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						

TOTAL

<u>FUNDING</u>	MILLIONS (Thousands of Dollars)	INTEREST EARNINGS REDUCTION TO GENERAL FUND UNRESTRICTED					
GENERAL FUND	MILLIONS	-0-	91.2	91.2	91.2	-0-	--0-
FEDERAL FUNDS							
OTHER (Specify Fund Source)							

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Bill allocates interest earnings on appropriated but temporary unused monies to the Alaska Power Authority. Calculations based on companion appropriations bill SB 26.

Above assumes a 12% interest rate on temporary invested funds. Monies used evenly throughout the year. \$760 million average balance. Even if Authority did not draw all funds as they became available the bill requires that interest earned on available balances be used by the Authority for allotment to other projects.

IV. DATE February 2, 1981

PREPARED BY Anselm C. Staack, Treasury Comptroller

AGENCY Dept. of Revenue/Treasury Division

PHONE 465-2351

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Name)

BILL ANALYSIS

Sponsor Substitute for Senate Bill No. 25 (1/29/81)

Program Effects:

1. Defines "economically feasible" project, i.e., if the Alaska Power Authority (Authority) determines that the total costs of a power project is cheaper over the estimated life v. other alternatives.
2. Standard factors used to determine feasibility to include:
  - a. A 7% inflation factor for construction and operating costs.
  - b. A 10% interest rate on money borrowed for the project.
  - c. An 11% annual cost escalation factor for alternative power sources from oil, gas or coal.
3. Establishes a Power Project Revolving Loan Fund (Fund) in the Authority. The money in the Fund includes:
  - a. Appropriations to it by the legislature.
  - b. Principal and interest repayments on loans.
  - c. Interest earned on Fund invested balances.
4. The Fund may be used by the Authority for:
  - a. Loans for reconnaissance, feasibility studies and project financing plans.
  - b. The cost of a power project including licenses, design and construction of the project.
  - c. Grants for power production assistance.
5. The Authority shall make loans for:
  - a. Power projects designated by the legislature in the amount the legislature designates.

BILL ANALYSIS, SSSB 25, Cont'd

- b. Power projects not designated by the legislature if the Authority owns the project.
  - c. Power projects not designated by the legislature if the Authority finds it economically feasible, and:
    - (1) will operate on renewable resources, or,
    - (2) Operates on coal, peat or wood where that source fuel is abundant and renewable energy resources are not available or cheaper.
6. The Department of Revenue is to invest and manage the balance of the fund which exceeds loan and grant requirements for the current fiscal year. Investments allowed in accordance with general fund investment statutes.
7. The Authority to maintain a record of all loans made.
8. Investment income on money appropriated to the Fund shall be allotted each fiscal year:
- a. To each power project specifically legislatively designated in proportion to the amount appropriated to the project as a percent of the total appropriation.
  - b. To all other unspecified power projects in proportion to their amounts v. the total amount appropriated for unspecified projects.
9. Loan terms and conditions include:
- a. Term no longer than the estimated actual life as constructed or 100 years whichever is less.
  - b. Interest rate not to exceed 3% on the outstanding balance. Until the balance appropriated to the Fund equals or exceeds \$4.5 billion, the interest rate is 7% a year.

BILL ANALYSIS, SSSB 25, Cont'd

- c. Repayments of principal and interest to begin when the borrower certifies that the project is producing power.
10. The total loan amount is:
    - a. The amount of money specifically appropriated by the legislature and the amount of any allotments.
    - b. For power projects not specifically designated by the legislature the loan may not exceed the amount appropriated for undesignated projects plus any allotments.
  11. The Fund balance (monies available) can be reallocated as follows:
    - a. Loan repayments may be reallocated to other projects.
    - b. If a project legislatively designated is not built the money may be reallocated only for economically feasible projects within the same market area of the designated but not constructed project.
    - c. If appropriations for a legislatively designated project exceeds the amount necessary then the excess can be reallocated to other projects.
  12. Effective July 1, 1981.

Comments:

1. The bill allows the Department of Revenue to invest and manage only the Fund balance which exceeds requirements for the current fiscal year. The bill places no restrictions on draw downs and their timing.

Appropriate language might be included that the Authority only draws upon the Fund when loan funds are actually necessary to accomplish construction and not when a commitment to a loan is made or instituted.

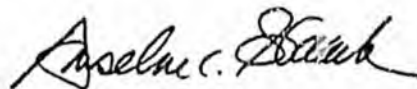
BILL ANALYSIS, SSSB 25, Cont'd

Without these restrictions the Authority could simply make the loan and draw the entire sum when the loan is committed to without having a valid need for all the money. The restrictions proposed are no different than how any appropriation is handled, i.e., it is not drawn down (paid out) until a valid expenditure exists. Revenues are received somewhat evenly throughout the year and cash is available when received. With the current language the Treasury could be literally unable to cash fund other drawdowns when requested until sufficient cash inflow allows.

2. The Power Project Revolving Loan Fund is entitled to its interest earnings on all amounts appropriated. The amount of interest lost to the general fund from amounts appropriated until their actual use can be quite substantial. For instance, if 1.52 billion is appropriated (see Companion Bill SB 26) and the money is used evenly throughout the year, at a 1.2% earning rate, the general fund unrestricted interest earnings reduction is \$91.2 million over the year.

Although these funds are to be reallocated to other projects they are unavailable for legislative prioritization in future periods.

Perhaps it might be satisfactory to allow the general fund to have the interest earnings on appropriated but undrawn amounts until they are drawn to cover actual expenditures on the various loans. This would not harm any designated projects, provide further control on "allotted" funds (which could be appropriated by the legislature if it desires the next year), and would forward continuing legislative review of project expenditures.



Anselm C. Staack, Treasury Comptroller  
Department of Revenue/Treasury  
465-2351



Alaska State Legislature

Senate

JUNEAU, ALASKA

PRELIMINARY BILL SUMMARY

BILL NUMBER: SB 25

SPONSOR(S): Kerttula, Ziegler,  
Ferguson, Bradley and Eliason

OTHER COMMITTEE  
REFERRALS: Finance

*all  
Sponsor  
substitute*

TITLE: "An Act establishing a power project revolving loan fund in  
the Alaska Power Authority;

and providing for an effective date"

FISCAL IMPACT (if known): The power project revolving loan fund will  
include 1) dollars appropriated ; 2) amounts paid as principal  
and interest; and 3) interest earned by investment of fund dollars

BRIEF SUMMARY OR HIGHLIGHTS:

Loans can be made for 1) feasibility studies for projects; 2) cost of  
project; 3) power production cost assistance.

Loans shall be made for 1) power projects designated by the legislature;  
and 2) power projects not designated by the legislature but meet  
certain criteria (economic feasibility and operates on renewable  
energy or coal, peat, wood)

The bill states criteria for "economic feasibility" -- total costs are  
cheaper for estimated life than other alternatives.

Sec. 44.84.430

Mandates that the Authority maintain financial records

The bill gives the loan terms and conditions, namely, the period  
of the loan may be for 100 years of the life of the project, whichever  
is less.

The interest rate may not exceed 3%.

Payment begins once the project is producing power.

The bill sets various loan limitations.

The Authority may reallocate funds which have been repaid to other power projects.

Until the fund equals \$4.5 billion, the interest rate on loans will be 7%.

STATE OF ALASKA  
THE LEGISLATURE  
LEGISLATIVE AFFAIRS AGENCY

cc to Jim +  
Committee  
Staff  
POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

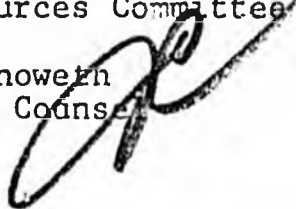
MEMORANDUM

January 29, 1981

SUBJECT: Sponsor substitute for SB 25 (power project revolving loan fund) and SB 26 (companion appropriation) (Work Order No. 12-0521)

TO: ✓ Senator Bettye Fahrenkamp, Chairman  
Senate Resources Committee

FROM: John B. Chenoweth  
Legislative Counsel



This pair of bills authorizes and appropriates for a revolving loan fund in the Alaska Power Authority by which the Authority may make loans for construction of power projects, earn a return on the loans made, and (with legislative approval) use the principal and interest for subsequent power projects.

\*

SB 25, the authorization, operates generally in the manner of other state revolving loan programs. The difference between this legislation and programs already in place is one of project dimension and loan repayment period. Both are significantly larger than comparable loan program components. The major operative provisions of the legislation are set out in \* Sec. 2 [page 2, line 1 and following] as materials amending AS 44.83, the Alaska Power Authority Act.

Sec. 44.83.400 establishes the power project revolving fund.

Sec. 44.83.410 indicates the principal permissible uses of the fund balance to be (1) the making of loans in order to complete reconnaissance and feasibility studies and power project finance plans required by law, and (2) the making of loans to meet the costs of power projects.

Sec. 44.83.420 establishes limitations on the loans which the authority may make from the fund. Generally, the authority is held to making loans for (1) power projects designated by the legislature by law (where required by AS 44.83.185), (2) power projects which the authority itself owns or will own, and (3) power projects which the legislature need not designate by law because of the exemptions provided in AS 44.83.187 but which the authority determines will be "economically feasible" [the term is defined in context on page 1, at lines 16 - 29] and which will be operated using one of the resources and within the limitations listed in AS 44.83.420(a)(3)(A) or (B).

Sec. 44.83.430 essentially requires the authority, pending the making a loan from the revolving fund, to maintain records of temporary investments on a per project basis. It describes, in subsection (b), the manner of allocating income earned on this invested income back to specific projects which have been identified by the legislature, and to unspecified projects generally.

Sec. 44.83.440 sets out terms and conditions applicable to loans, specifying a maximum repayment period, a rate of interest, and a date when repayment is to commence.

Sec. 44.83.450 describes loan limitations in terms of the maximum amounts which may be loaned for particular power projects. Where the legislature has appropriated and allocated to a power project, the loan may not exceed the allocation and a pro rated share of investment income earned under AS 44.83.430. Where the legislature has not designated, appropriated and allocated to a power project, the authority has discretion, within the total amount available to it for undesignated projects and the pro rated share of investment income earned, to determine the amount which may be allotted to each project.

Sec. 44.83.460 addresses the situation opposite to AS 44.-83.450 by describing how the authority shall account for and handle repayments of principal and interest on loans for power projects (subsection (a) says that the authority may reallocate to other power projects). The section also extends to the authority the responsibility for deciding what to do with amounts appropriated by the legislature to power projects which are not constructed, and to power

projects for which the amount appropriated exceeds actual costs (in both instances, by subsections (b) and (c)) the authority may reallocate these amounts to other power projects.

Sec. 44.83.470 adds a definition of the term "fund".

By \* Sec. 3 of the bill [page 5, lines 20 - 22], sums appropriated by the legislature (such as proposed in SB 26) are to be temporarily handled and invested by the Department of Revenue as the surplus general fund balance may be invested, with the proceeds of the appropriation and earnings transferable to the authority for projects as needed.

The major portion of amounts appropriated by the legislature should go to build projects specified by the legislature by law in accordance with the 1980 amendments to the Alaska Power Authority Act. A relatively small amount of money will be available for undesignated power projects, which may be selected by the authority but only after completion of a feasibility study to determine whether a proposed power project not specified by the legislature is "economically feasible". The requirement that a power project be economically feasible, and the very general standards for determining economic feasibility are set out in \* Sec. 1 of the bill, and cross-references to the requirement may be found at AS 44.83.420(a)(3) (for proposed projects which do not need legislative review and approval) and at AS 44.-83.460(b) (disposition of "revolved" principal and interest payments on amounts previously loaned).

For loans made, a three percent interest rate on amounts borrowed is specified [AS 44.83.440(b)]. By \* Sec. 4 of the bill, the three percent interest rate is set aside and a higher interest rate, seven percent per year, applies for projects for which loans are made until the legislature appropriates at least \$4,500,000,000 to the power project revolving loan fund. (I understand that this suggested requirement was to assure that supporters of projects for which appropriations are made in the earlier years are less inclined to "bail out" of support of the full range of projects immediately after seeing their projects named in legislation making appropriations.)

Senator Bettye Fahrenkamp

Page 4

January 29, 1981

Apart from the provisions for making loans for power projects, this bill also provides that a portion of the balance of the fund may be used to make grants for the power production assistance program as authorized in current law (AS 44.83.162 - 44.83.164). This provision in the bill is AS 44.83.410(2).

\*

SB 26, the companion appropriation, provides appropriations from the general fund during each of the next three full fiscal years (FY 82, FY 83, FY 84) to at least the minimum amount specified in SB 25 that would escape levy of the higher seven percent interest rate. As a technical matter, a Committee Substitute should be considered for this bill to pick up, at page 3, following line 4, the following entry omitted in typing:

(8) Susitna	\$1,100,000,000
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This does not change the total for the FY 84 appropriation or for the full bill.

JBC:ljb

cc: Senator Jalmar M. Kerttula

# Alaska State Legislature

BETTYE FAHRENKAMP, CHAIRMAN  
VIC FISCHER, VICE-CHAIRMAN  
BRAD BRADLEY  
DICK ELIASON  
DON GILMAN  
BOB MULCAHY  
ARLISS STURGULEWSKI



POUCH V  
STATE CAPITOL  
JUNEAU, ALASKA 99811  
(907) 465-3834  
(907) 465-3835

## Senate

### Committee on Resources

February 4, 1981  
1:30 p.m.

Butro Room  
207 - Capitol

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#### MEMBERS PRESENT

SENATOR FAHRENKAMP  
SENATOR FISCHER  
SENATOR BRADLEY  
SENATOR ELIASON  
SENATOR GILMAN  
SENATOR MULCAHY  
SENATOR STURGULEWSKI

- 
- Hearing: SB 8 Making a special appropriation to the Alaska Power Authority for construction of the Susitna River Hydroelectric project.
- SSSB 25 Establishing a power project revolving loan fund in the Alaska Power Authority.
- SB 26 Making special appropriations to the power project revolving loan fund of the Alaska Power Authority.

The hearing was teleconferenced to Anchorage, Fairbanks and Mat-Su.

Terry Reikhart, Fairbanks, representing himself, testified on SB 8 stating that the feasibility study is proceeding smoothly. Since Susitna is a major project it is necessary to have as much information as possible before making a decision to proceed.

Patricia Anderson, Fairbanks, a biologist, stated that the Department of Fish and Games needs 5 years to conduct fish and wildlife studies and when completed they will provide good base line data.

Fred Dure, Anchorage, representing himself, stated that he was opposed to SB 8 and that consideration should be given to wildlife.

Chuck Smith, Mat-Su, representing himself, stated that Susitna has been studied for over 40 years that it is time to move on with the project because the area is approaching a power shortage. He indicated that the Alaska Power Authority brochure on Susitna answered all the questions previously raised by the environmentalists.

Kevin Herrin, Fairbanks, representing himself, stated that the feasibility study is needed to determine if the size of the project is appropriate. He indicated that adequate power is needed at a reasonable rate but producing more power was not the solution. He saw the solution as energy conservation.

Vivian Cartwright, Fairbanks, representing herself, stated that the social consequences, of building Susitna, may be high and may disrupt the rural life style of the area. She indicated that the positive points of building the dam are: 1. it would produce cheaper energy for urban areas; and, 2. it would produce short term employment.

Thomas Star, Anchorage, Municipal Light and Power, stated that he was infavor of all three bills. He indicated that it was wise to use non-renewable resource revenues to build useful long term hydro structures. These bills will provide funding for our future energy needs.

Dorothy Jones, representing the MatSu Borough, stated she strongly supported Susitna and all other hydro projects in the State because they are environmentally clean and also a good use of a renewable resource.

Jeff Wilson, Fairbanks, representing himself, stated that it is important to know the potential impacts of Susitna since the river provides fish for the Cook Inlet fisheries. He felt that the feasibility study needs to be completed before a decision was made.

Bob Huffman, Fairbanks, representing himself, stated that he was infavor of all three bills because they will assure that Alaska will have a viable energy future. Hydro is a renewable resource and once the projects are completed they will be virtually inflation free.

David Singlesign, Anchorage, representing himself, stated that the Sierra Club has not taken a position on the Susitna project because they are waiting for the completion of the feasibility study. He further stated that it is logical to study a project of this size in depth.

Bob Lohr, Anchorage, Energy Director RuralCap, stated that he supports the assistant program portion of SSSB 25 and SB 26 because without them the bush communities would be paying

close to 50¢ per KWH.

Jim Booska, Fairbanks, representing himself, stated that the present systems are overloaded and therefore, Susitna is needed as soon as possible. He said that he thought that Snettisham was completed, so what is the appropriation for Snettisham Phase II? (Answered later by Mr. Holdsworth).

Elexis Dvorson, Fairbanks, representing herself, stated that she would like to see the feasibility study completed and was particularly concerned about any potential impact on the Cook Inlet fisheries. She indicated that there were other energy options such as solar energy, and conservation.

Eric Meyers, Anchorage, representing the Alaska Public Interest Research Group, stated that by surpressing the cost of electricity it encourages consumption. He suggested that undue emphasis was placed on electricity when there are other energy needs. He suggested that \$20 million be put into the audit and retro-fitting program.

Nancy Lee, Anchorage, representing herself, stated that the amount of money under consideration may not be needed and suggested that the feasibility study be completed first.

David Lacey, Fairbanks, representing himself, stated he was opposed to SB 8 because it creates a big Golden Vailey Electric Authority and big government.

Roxie Palser, Fairbanks, stated she supported hydro electric projects because there have been changes in Alaska which have increased the need for hydro.

Jeff Bowman, Fairbanks, representing himself, stated he did not believe that the alternatives that are being studied are being given the same consideration as Susitna. He indicated that he thought that smaller projects may be more appropriate.

Doug McIntyre, Fairbanks, representing himself, stated he was opposed to SB 8 because the per capita cost was \$10,000.

3:05 p.m. End of Teleconference.

Phil Holdsworth, Juneau, representing South Eastern Conference, stated that their policy statement #3 on hydro-electric fits SB 25. In reference to the previously asked question regarding Snettisham Phase II, he stated that the funds were to connect Lake Dorothy to the existing plant. The existing plant was built to take an extra turbine and flow from the lake and this comparatively small amount of money will increase the capacity.

Roland Shanks, Juneau, Alaska Environmental Lobby, stated that it is premature to appropriate money to start construction of the Susitna River Hydroelectric Project. That the decision to expend money for the Susitna Project should await the outcome of the studies. He indicated that it may be in the economic best interest of the State to foster an in-state economy based on energy conservation, retro-fitting and smaller more localized hydroelectric projects.

Dave Hutchens, Juneau, Executive Director, Alaska Rural Electric Cooperative Association, stated that there had been some misunderstanding about SB 8 because the Federal Energy and Regulatory Commission requires the feasibility studies to be completed prior to their issuance of a license. But, it is wise while the money is available from non-renewable income to put aside some of it so it can be used if and when Susitna is determined to be feasible. He stated that SB 25 and SB 26 use the revenue from non-renewable resources to finance permanent energy facilities at low interest rates so people across the state can benefit. He indicated that when these projects are completed 7/8 of the people in the state will be on hydro power. He further indicated that it will be years before Susitna is built but it can be funded at today's cost with today's dollars. If it is proven infeasible the money becomes available for other projects in that area. He stated that the reason for such a large project like Susitna is it is economically more efficient.

Senator Jalmar Kerttula, President of the Alaska State Senate, stated that these bills represent a 8 year program. The basic philosophy behind the bills is: that the oil revenues are here today which can be used to build a sound economic base for the future. These projects represent a long term investment in the State's economic future. He stated that now is our chance to put the money aside because if for some reason there is a shortage of funds in the future even the money in the permanent fund will be spent.

Senator Mulcahy put forth the motion to move the bills, with individual recommendations, with an amendment to SB 26 correcting the typographical error on page three, and with a letter of intent with SB 8.

The Committee adjourned at 4:10 p.m.