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296

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 4.21.89
IN ACCORDANCE WITH UNIFORM RULE 23

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

FURTHER

L&C
FIN

4/20/89

DATE TURNED INTO OFFICE 4.26.89

Mr. President:

T&RA Committee considered SB 296

establishing the business incentive program; efd

and recommended:

- replace with CS _____ same title
- attached amendment(s) and new title
- _____ letter of intent adopted
- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____

FISCAL NOTE(S) attached zero
 appropriation no FN attached

COMMERCE
 fiscal impact
 Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Mr. Squitieri - if amended

Pat Lambert needs work

Bill Adams - No Rec
Chair's signature and recommendation

Committee backup attached

SB 296: "An Act establishing the business incentive program , and providing for an effective date."

SB 296 establishes the business incentive program in the Alaska Industrial Development and Export Authority (AIDEA). Money in the business incentive revolving fund is to be used for the purpose of pass-through grants to municipalities for training, making interest payments for installation and purchase of manufacturing equipment and for infrastructure development associated with the project. The source of funds is not delineated in the bill.

A business would submit an application to the municipality which, after approval, would then forward it to AIDEA. An application for such a grant must be acted upon by AIDEA within 30 days. Funds would flow from the authority back to the municipality. The grant is limited to \$500 for each job created, plus whatever the municipality adds on for infrastructure development.

Should the business not create the jobs anticipated, the bill requires that "all or a portion" of the grant be repaid. Repayment would be for principal of the grant plus estimated inflation expressed as an interest rate. The principal would return to the grant fund and the interest would go to the general fund.

Grants must be made through a municipality with no municipality securing more than 25% of the total money available. In addition, no more than 50% of the money available can be granted in any one judicial district in any calendar year. As written (page 2, lines 12-16), the bill allows associated infrastructure to be outside the above caps.

The department has no specific amendments at this time, but would like to bring up several questions:

1. "Privately owned business" is not defined. Does it include corporations that are publicly owned (shares traded on an exchange) or is the program limited to sole proprietorships and partnerships?
2. What happens if there is no municipality and a business needs assistance?
3. The AIDEA board meets once a month, so 30 days could be very restrictive in terms of reviewing any grant application and taking board action.
4. How does this program fit into the Department of Labor's Job Training Program and the Department of Community and Regional Affairs' and Department of Administration's pass-through grant programs? The department feels that the program must better be located within DC&RA. As a grant program, it does not fit the traditional operations of the authority.
5. What is the source of funds for the grants?



Larry Merculieff, Commissioner

Date: 4/25/89

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: SB 296
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act establishing the business
incentive program
Sponsor: Rodey, Faiks and Pearce
Requester: Senate C & RA

Agency Affected: Commerce & Economic Dev.
BRU: Alaska Industrial Development
and Export Authority
Components: _____

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		46.9	46.9	46.9	46.9	46.9
TRAVEL		7.0	7.0	7.0	7.0	7.0
CONTRACTUAL		10.0	10.0	10.0	10.0	10.0
SUPPLIES		1.5	1.5	1.5	1.5	1.5
EQUIPMENT		12.0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		77.4	65.4	65.4	65.4	65.4

CAPITAL		0	0	0	0	0
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REVENUE		0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND		77.4	65.4	65.4	65.4	65.4
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME		1	1	1	1	1
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

See attached for detail.

Prepared by: Bertram L. Wagnon, Executive Director Phone: 274-1651
Division: Alaska Industrial Development and Export Authority Date: 4-24-89

Approved by Commissioner: Larry Mercurieff Phone: 465-2500
Agency: Department of Commerce & Economic Development Date: 4/25/89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

3958D/042589b

Patrick M. Rodey
Senator

Alaska State Legislature



Senate

3111 C. St., Suite 510
Anchorage, Alaska 99503
(907) 561-7618

During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-3793

DATE: April 27, 1989

TO: Senator Dick Eliason, Chair
Senate Labor and Commerce

FROM: Senator Pat Rodey *Pat*

SUBJECT: SB 296, Business Incentive Program
(enabling legislation)

I would like to request the Senate Labor and Commerce Committee to consider scheduling Senate Bill 296, an act establishing the Business Incentive Program.

The purpose of this legislation is to establish a program through the Alaska Industrial Development Authority to enhance the ability of local governments to attract new businesses to their communities.

This program would allow businesses to buy down the interest rates on loans for the purchase of manufacturing equipment, pay for infrastructure related to the project, and onetime job training expenses for new job creation.

Local governments would make application to the fund on behalf of private companies. They would be required to bring a formal resolution in favor of the project and demonstrate that all other possible funding sources have been fully utilized. No single municipality could spend more than 25 percent of monies available in the fund in any year, thus ensuring equitable geographic distribution. This legislation would apply to new projects as well as the expansion of existing primary industry projects.

If you are interested in co-sponsorship of this legislation please call my legislative aide, Mark Begich at 465-3793 or in Anchorage at 337-6748.

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3 PROPOSED COMMITTEE SUBSTITUTE FOR

4 SENATE BILL 298

5 IN THE LEGISLATURE OF THE STATE OF ALASKA

6 SIXTEENTH LEGISLATURE - FIRST SESSION

7 A BILL

8 For an Act entitled: "An Act relating to waste collection and
9 recycling."

10
11 Section 1. FINDINGS AND POLICY. (a) The legislature finds
12 that

13 (1) the recycling and reuse of garbage, refuse, trash or
14 other waste material ("Waste") and the material, resource, and
15 energy recovery from Waste would substantially extend the useful
16 life of existing solid waste disposal sites in the State of
17 Alaska, reduce the need for new landfills, save Alaska's environ-
18 ment, reduce outdoor pollution, and create jobs in the state;

19 (2) refuse utilities are ideally situated, to collect, and
20 recycle waste and to engage in recovery activity;

21 (3) the recycling and recovery activity is in its infancy
22 in the nation and particularly in the State of Alaska, derives
23 little or no profits for those engaged in the activity, and
24 requires that the legislature promote the activity whenever
25 possible;

26 (4) substantial volumes of Waste are needed to make the
27 recycling and recovery business economically viable which
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3 requires that certificated refuse utilities collect and control
4 the available waste in their service areas;

5 (5) it is in the public interest to encourage the existing
6 refuse utilities to develop the necessary technology and business
7 opportunities to engage in economical and efficient waste re-
8 cycling and recovery activities.

9 (b) It is the policy of the State to encourage Waste re-
10 cycling and recovery activities and to assist and encourage
11 refuse utilities to develop Waste recycling and recovery tech-
12 nology and to conduct an economical and efficient Waste recycling
13 and recovery business.

14 Section 2. AS 42.05.221 is amended to read:

15 (a) A public utility may not operate and receive compen-
16 sation for providing a commodity or service after January 1, 1971
17 without first having obtained from the Commission under this
18 chapter a certificate declaring that public convenience and
19 necessity require or will require the service. A certificate to
20 furnish collection and disposal service of garbage, refuse, trash
21 or other waste material in an area already served by a certif-
22 icated refuse utility may only be granted if the operating and
23 capital expense incurred by the utility and its affiliated inter-
24 ests on waste recovery is not 3% or more of the annual operating
25 and capital expense of the utility and the refuse utility will
26 not provide service to the satisfaction of the Commission. The
27 operating and capital expense incurred by the utility and its
28 affiliated interests for waste recovery for the 5 years prior to

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3 the filing of an application to serve in an area already served
4 by a certificated refuse utility may be averaged to calculate the
5 3% annual operating and capital expense figure. Where a public
6 utility provides more than one type of utility service, a sepa-
7 rate certificate of convenience and necessity is required for
8 each type. A certificate shall describe the nature and extent of
9 the authority granted in it, including, as appropriate for the
10 services involved, a description of the authorized area and scope
11 of operations of the public utility.

12 Section 3. AS 42.05.381 is amended by adding a new
13 subsection to read:

14 (e) All rates charged to a municipality by a utility fur-
15 nishing collection and disposal service of garbage, refuse, trash
16 or other waste material shall be regulated by the commission and
17 may not be exempt from regulation under AS 42.05.711(d).

18 (f) The commission shall adopt regulations for electric
19 cooperatives and for utilities which furnish collection and
20 disposal service of garbage, refuse, trash, or other waste mate-
21 rial setting a range for adjustment of rates by a simplified rate
22 filing procedure. A cooperative or utility furnishing collection
23 and disposal service of garbage, refuse, trash or other waste
24 material may apply for permission to adjust its rates over a
25 period of time under the simplified rate filing procedure regu-
26 lations. The commission shall grant the application if the
27 cooperative or the utility furnishing collection and disposal
28 service of garbage, refuse, trash, or other waste material

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3 satisfies the requirements of the regulations. The commission
4 may review implementation of the simplified rate filing procedure
5 at reasonable intervals and may revoke permission to use the
6 procedure or require modification of the rates to correct an
7 error.

8 Section 4. AS 42.05.711(d) is amended to read:

9 (c) The commission, on a finding that no legitimate public
10 interest will be served, may exempt a utility from all or any
11 portion of this chapter other than AS 42.05.221 - AS 42.05.281.

12 Section 5. AS 42.05.720 is amended by adding new paragraphs
13 to read:

14 (1) "resource recovery" means the process of obtaining
15 useful material or energy resources from waste;

16 (2) "energy recovery," means recovery in which all or a
17 part of the waste materials are processed to utilize the heat
18 content or other forms of energy, of or from the material;

19 (3) "material recovery," means any process of obtaining
20 from waste, by presegregation or otherwise, materials which still
21 have useful physical or chemical properties after serving a
22 specific purpose and can, therefore, be reused or recycled for
23 the same or other purpose;

24 (4) "recycling," means any process by which solid waste
25 materials are transformed into new products in such a manner that
26 the original products may lose their identity;

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(5) "reuse," means the return of a commodity into the economic stream for use in the same kind of application as before without change in its identity;

(6) "waste" means garbage, refuse, trash or other waste material;

(7) "waste recovery" means resource recovery, energy recovery, material recovery, recycling or reuse of waste.

Section 6. No certificate may be granted to furnish collection and disposal service of garbage, refuse, trash or other waste material in an area already serviced by a certificated refuse utility for 1 year from the effective date of this Act.

Section 7. This Act takes effect immediately under AS 01.10.070(c).

CITY OF FAIRBANKS
Office of the City Attorney
410 CUSHMAN STREET
FAIRBANKS, ALASKA 99701-4683
907-459-6750

February 22, 1989

RECEIVED

MAR 31 1989

Fax to: 465-2161

Commission John Andrews
Department of Administration
P.O. Box C
Juneau, Alaska 99811

Deputy City Mgr.
Utilities

Re: Comments on Telecommunications Intent Language,
Preliminary Report, February 1, 1989

Dear Commission Andrews:

The City of Fairbanks Municipal Utilities System (FMUS) appreciates the opportunity to comment on your Telecommunication Intent Language, Preliminary Report, dated February 1, 1989. I am sorry for not meeting your deadline of February 17, 1989 but FMUS did not receive a copy of the report until it was telecopied to us yesterday by the Alaska Telephone Association. Even though we are listed on the distribution list we never received a copy.

IS THE STATE IN FACT SAVING MONEY?

The City of Fairbanks certainly commends any State Agency for trying to conserve public money. However, after reading your report we still are not convinced that when all the capital cost of building, maintaining and operating the State network are considered that the State is in fact saving money. The actual cash outlay paid to third parties may be \$950,838 less. However, your report does not mention that the State's "costs" includes all the yearly depreciation on capital cost of State network (paid with capital appropriations to various departments) and wages and fringes of state workers to operate and maintain the State network. Many other indirect expenses such as the cost of office space and utilities may also be unassigned to the network. All regulated telephone companies, both local and inter-exchange are required to maintain all such records in a standardized format pursuant to FCC Title 47 Part 36 guidelines so that they can be easily compared and audited. The APUC also requires Alaska LEC to follow part 36 rules with only slight deviation. Lack of a requirement for enterprise fund accounting or incentives to properly maintain and report such costs in a profit/loss format is a problem with a State network financed with public money.

WHO PAYS FOR SUCH SAVINGS (IF ANY)?

FMUS takes issue with the concept that it and other local exchange companies are unaffected by loss of State traffic on public switched network.

In Section 6 of the Preliminary Report is the following statement:

Alascom shares toll revenues with the local exchange companies based on costs. If no State network voice traffic originated or terminated in a local exchange company service area, then that company's costs have not been affected by the network. The company's settlement amount can change only if Alascom changes the rate of return it uses for settlement purposes.

INCREASE IN LOCAL TELEPHONE RATES

The above underlined sentence is very misleading. FMUS does receive settlements from Alascom for intrastate calls based its cost. Also, the discussion in the report about the settlements process is correct in describing that costs of local telephone companies are divided into local, intrastate and interstate jurisdictions. This allocation of costs to the different jurisdiction is important because if a very large customer such as the State of Alaska does not use the public switched network then there can be a significant decrease in the percentage of FMUS cost allocated to intrastate jurisdiction. What this means is that a higher percentage of the cost formerly allocated to intrastate jurisdiction is allocated to the interstate jurisdiction and to the local jurisdiction. The Alaska Public Utilities Commission (APUC) will allow this higher percentage of cost to be passed on to local rate-payers. Therefore, FMUS will not lose revenue IF it raises local rates. However, these local rate payers here, and anywhere else calls are made using the State Network rather than the public switched network, are the same taxpayers that the division of Telecommunications is trying to economize for.

INCREASE IN INTRASTATE TELEPHONE RATES

In addition, Alascom will be permitted by the APUC to recover its entire cost of providing intrastate telecommunications service. By the State constructing and using its own network parallel to public switched network there will be very little, if any, reduction in costs of Alascom operating the public switched network. Therefore, if a significant customer such as the State of Alaska leaves the public network then the remaining customers making intrastate calls will have to bear this cost formerly paid by the State in intrastate tolls. Therefore, intrastate rates will have to be increased by the APUC. Here again the "savings" by the State in toll charges will be borne by business and residential intrastate customers through higher instate telephone rates. These higher intra-state telephone rates in turn can motivate other large users to also bypass (leave the public network) leading to more pressure on intra-state and local rates.

Here again, taxpayers who make instate telephone calls are paying for these uneconomic savings.

While we do not have the current data to determine exactly how much local rates and instate toll rates will have to be raised because of the State Network, it is beyond question that there will be increases. The only thing we do not yet know is how much. These increases may exceed the amount of "saving" by State agencies. Other factors will also affect these rates (most likely reductions in subsidies from lower 48), but these factors are not within the control of the State of Alaska. FMUS did receive less in intrastate toll settlements in 1987 as mentioned in the report but this was NOT due to a reduction in the number of telephone customers in Fairbanks. FMUS increased the number of telephone customers and access in both 1987 and 1988 and is now at an all time high.

I disagree strongly with your conclusion that State network will not have an adverse affect on both local rates for FMUS and local telephone companies in Anchorage and Juneau as well as on intrastate telephone rates. Any time you have a duplication of plant-two systems in place paid for by the same population of users, this has to lead to additional cost for at least some of the users. If the State is saving money then the cost must be borne by the remaining users. The remaining users are State taxpayers who have financed the State network through public money and then pay for it again through higher local and instate toll rates. This cannot be wise public policy.

The report also infers that the LECs do not have the technology to handle the states requirements. ATU, FMUS, Juneau and Ketchikan all have Northern Telecom DMS 100 switches that are "State of the Art" and perhaps offer a greater technological flexibility than the state enjoys with its current system.

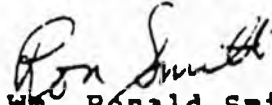
COMPARISONS WITH OTHER STATES

I question the validity of comparisons to what is done in other states. COMPARISONS to other states where the state's intrastate usage may be less than one percent of intrastate long distance telephone usage is not really comparable to Alaska where the State has a much larger percentage of intrastate calling. I do not know the exact percentage of intrastate long distance telephone usage made by the State of Alaska, but I have heard that it may be as high as 15% or more. While bypass by a single customer with 1% of intrastate toll volume will have the adverse consequences mentioned above, that (relatively) small customer will not have the effect of a customer who has ten or fifteen percentage of the intrastate toll volume.

CONCLUSION

The Preliminary Report mentions that there is a legislative audit being concluded. We ask that the Department of Administration request that the auditor restate their findings in a format consistent with FCC Part 36 rules with recognition of all direct, indirect and allocated costs including depreciation and amortization. If all these costs are included I am sure that there is not an actual "savings". Also, I hope these comments will induce the Department of Administration and the Telecommunications Information Council to reconsider its conclusion that the State Network is wise public policy.

Sincerely,



Wm. Ronald Smith
Deputy City Attorney

tlb

xc: B. Phillips, City Manager
V. Gillespie, Deputy City Manager - Utilities
Alaska Telephone Association
Lorraine Plaga, APUC