

SB

1888

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FILE

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSSB 188(FIN)
(S) Publish Date: 4/20/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
Title Bulk Fuel Revolving RDU Alaska Energy Authority (453)
Loan Fund Cap Component AEA Rural Energy Operations
Sponsor Olson
Requester Senate Finance Component No. 2600

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill increases the maximum amount for a single borrower to \$400,000, and allows a cooperative corporation or electric cooperative to borrow the lesser of \$400,000 multiplied by the number of communities, or \$1,500,000.

This bill has no impact on the cost of AEA operations.

Prepared by: Sara Fisher-Boad, Financial Analyst
Division: Alaska Energy Authority
Approved by: William C. Noll, Commissioner
Agency: Commerce, Community, and Economic Development

Phone: 907 269 4629
Date/Time: 2/6/06 2:00 PM
Date: 2/6 2006

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SENATOR DONALD C. OLSON

DISTRICT T

SPONSOR STATEMENT

Alakanuk
Ambler
Anaktuvuk Pass
Atkasuk
Barrow
Brevig Mission
Browerville
Buckland
Chevak
Deering
Diomedes
Elim
Emmonak
Gambell
Golovin
Hooper Bay
Kaktovik
Kiana
Kivalina
Kobuk
Kotlik
Kotzebue
Koyuk
Mountain Village
Noatak
Nome
Noorvik
Nuqpat
Nunam Iqua
Pilot Station
Pitka's Point
Point Hope
Point Lay
Savoonga
Scanlon Bay
Selawik
Shaktulik
Shishmaref
Shungnak
St. Mary's
St. Michael
Stebbins
Teller
Unalakleet
Wainwright
Wales
White Mountain

SB 188, Bulk Fuel Loan Fund Cap

I introduced SB 188 at the urging of members of the Governor's Rural Energy Action Council. The council's April 15 report has many recommendations to help rural communities contend with rapidly escalating energy costs.

SB 188 is one of their recommendations for the bulk fuel loan program, a program that allows communities to minimize fuel costs through large purchase economies. This is an important program for those communities that are ice bound during the winter and depend on just one or two large shipments to supply their fuel needs for the entire year.

Currently, the bulk fuel loan program has a maximum loan of \$300,000 that any one borrower may take in a fiscal year. The effect of this cap during times of dramatically increasing fuel costs is to reduce the maximum amount of fuel that may be purchased. The proposed finance committee CS will counteract this effect by increasing the loan limit to \$400,000 for a single borrower. For cooperative organizations that are purchasing bulk fuel for more than one community, the loan limit is further increased to \$400,000 multiplied by the number of communities or \$1,500,000, whichever is lesser. This latter measure is to encourage larger purchases for multiple communities in order to attain additional economies of scale for the benefit of all energy consumers.

The senate finance committee substitute for SB 188 retains the most essential recommendations of the Alaska Energy Authority and is endorsed by the administration. Its enactment will directly assist in lowering energy costs to small communities in Alaska. The bill is timely and needed.

THE
FOLLOWING
DOCUMENT(S)
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AIDEA/AEA

Alaska Energy Authority

January 26, 2006

The Honorable Donny Olson
Alaska State Senate
State Capitol, MS 3100
Juneau, Alaska 99801-1182

RE: CS SB 188 (CRA) Loans from the Bulk Fuel Revolving Loan Fund

Dear Senator Olson:

We respectfully request your support of the attached amendment to CS SB 188(CRA).

The Bulk Fuel Revolving Loan Fund (BFRLF) was created to provide short-term financing for bulk fuel purchases in communities with populations less than 2,000. On February 7, 2005, Governor Murkowski commissioned the Rural Energy Action Council (REAC) to provide him with recommendations to address the high cost of energy in Rural Alaska. REAC's report was published on April 15, 2005 and included proposal changes to the BFRLF program. Your prompt and early response to the Governor Murkowski's REAC recommendations by introducing SB 188 was greatly appreciated.

During the interim between legislative sessions, Governor Murkowski requested the Alaska Energy Authority (AEA) review the statutes regarding the BFRLF program. Our review considered current existing statutes, changes proposed by SB 188, and the changes recommended by REAC.

With the support of Governor Murkowski and based on the REAC recommendations, AEA proposes changes to the program to increase the loan limit and to assist entities responsible for maintaining community infrastructure.

The amendment proposes the following changes to the Bulk Fuel Revolving Loan Fund Program:

- Raises the loan limit to \$400,000 from \$300,000 for a single borrower. [CSSB 188(CRA) does not change the loan limit; REAC recommended a loan limit increase to \$650,000]
- Allows a cooperative corporation or electric cooperative servicing more than one community to borrow the lesser of \$400,000 multiplied by the number of communities, or \$1,500,000. [CSSB 188(CRA) limited cooperatives to \$300,000 multiplied by number of communities or \$1,000,000 maximum; both versions are the result of a REAC recommendation]
- Expands the definition of eligible borrower to a person maintaining community facilities or infrastructure. AEA has been approached by a subsidiary of Yukon Kuskokwim Health

The Honorable Donny Olson

January 26, 2006

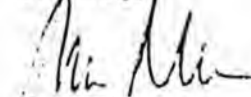
Page 2

Corporation that is operating community water and sewer systems. This change will assist entities that operate village infrastructure. [Not addressed in CSSB 188 (CRA)]

- Allows AEA to adopt regulations to establish standards for the allocation of loan funds to eligible borrowers. [Not addressed in CSSB 188 (CRA)]
- Clarifies that fees and collection charges be deposited in the BFRLF not the general fund. The Department of Law has recommended this change to correct an ambiguous subsection in the statutes. No impact on the general fund since the GF is not currently receiving any monies generated from this program. [Not addressed in CSSB 188 (CRA)]

We are ready to meet with you and your staff to provide any other information you may require. Thank you for considering our request.

Sincerely,



Ron Miller
Executive Director

Findings and *Action* Recommendations for Governor Frank Murkowski

April 15, 2005

Prepared for:

Rural Energy Action Council (REAC)
Created by Governor Frank H. Murkowski
February 7, 2005

Prepared by:

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For an online version of this publication, go to
www.aidea.org/RuralEnergyActionCouncil.htm

At O'Leary : 2 PM Gov Conference Room

Issue: High Cost of Bulk Fuel in Rural Alaska

Recommendation #6: Under Alaska Energy Authority's (AEA) Bulk Fuel Revolving Loan Fund (AS 42.45.250), allow the maximum amount borrowed by cooperatives formed under AS 10.15 to be based on the number of eligible communities that belong to the cooperative, and increase the loan limit above \$300,000.

Rationale: Increased bulk fuel storage capacity and rising fuel costs has resulted in communities needing more financial resources to purchase bulk fuel; the formation of cooperatives may allow volume discounts for bulk fuel purchases.

Action: Amend AS 42.45.250 (e) to allow the maximum loan amount to cooperatives formed under AS 10.15 to be based on the number of eligible communities belonging to the cooperative. Amend AS 42.45.250 (e) (1) to increase the maximum loan amount above \$300,000.

Funding Required: Amending AS 42.45.250 (e) will not have a fiscal impact on the Bulk Fuel Revolving Loan Fund. Amending AS 42.45.250 (e)(1) may have a fiscal impact and require additional capitalization of the Bulk Fuel Revolving Loan Fund, but to determine the fiscal impact will require additional information that is not available at this time.

Background: Rising costs of bulk fuel for delivery to rural communities combined with increased bulk fuel storage capacity in some communities, has created a situation where the ability to pay for bulk fuel deliveries is becoming increasingly difficult, especially the decrease in revenues being experienced by rural communities (See Appendix D for Sample of the Price of Fuel and Appendix E for AEA Energy Fuel Survey). One potential method to lower the cost of bulk fuel is the formation of cooperatives that are comprised of multiple communities. Consolidation of bulk fuel purchases and the resulting increase in the volume of fuel purchased may lead to a lower delivered cost.

In addition, the increase in fuel costs, even with a volume discount, coupled with increased storage capacity in some communities has lead to the bulk fuel "invoice" amount being an amount such that the current maximum loan amount under AS 42.45.250 (e)(1) requires the borrower to have a larger down payment when cash resources are more scarce.

AEA's Bulk Fuel Revolving Loan Fund currently provides communities with a population of 2,000 or less the opportunity to finance bulk fuel purchases in accordance with AS 42.45.250 and 3 AAC 106.300 – 106.365. Under AS 42.45.250 (e)(1), a borrower is currently limited to a maximum loan of \$300,000.

The maximum loan amount of \$300,000 to a single borrower precludes a cooperative that may for example be comprised of ten (10) eligible communities, each with a need to purchase \$300,000 in fuel, from obtaining a bulk fuel loan of

sufficient size to cover the cost of the bulk fuel purchase. Increasing the loan maximum amount to \$650,000 for each applicant under the current eligibility criteria will help alleviate some of the financial challenges faced by the applicants. A higher loan amount means communities needing reduced cash resources to consummate a bulk fuel purchase.

With regard to the increased loan amount of \$650,000, AEA expressed reservations as to whether this is the appropriate loan amount and the impact any increased loan amount would have on the Bulk Fuel Revolving Loan Fund without further capitalization of the Fund.

See Appendix F for Financing Bulk Fuel, which provides a list of known existing loan programs for fuel in Alaska.