

SB

34

<TARGET><BILL>SB 34</BILL><SUBJECT>SB
34</SUBJECT><COMM>HFIN29</COMM></TARGET>

Fiscal Note

State of Alaska
2015 Legislative Session

| | |
|---------------------|-----------|
| Bill Version: | SB 34 |
| Fiscal Note Number: | 1 |
| (S) Publish Date: | 1/30/2015 |

Identifier: 0018-DOR-TRS-1-16-15
 Title: PCE Investment Fund
 Sponsor: Rules by Request of the Governor
 Requester: Governor

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Treasury Division
 OMB Component Number: 121

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

| | FY2016 Appropriation Requested | Included in Governor's FY2016 Request | Out-Year Cost Estimates | | | | |
|-------------------------------|--------------------------------------|--|-------------------------|----------------|----------------|----------------|----------------|
| | | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| OPERATING EXPENDITURES | FY 2016 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| Personal Services | | | | | | | |
| Travel | | | | | | | |
| Services | | | | | | | |
| Commodities | | | | | | | |
| Capital Outlay | | | | | | | |
| Grants & Benefits | | | | | | | |
| Miscellaneous | | | | | | | |
| Total Operating | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Fund Source (Operating Only)

| | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| None | | | | | | | |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Positions

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

| | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|
| Change in Revenues | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|

Estimated SUPPLEMENTAL (FY2015) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency?
 If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

| | |
|-------------------------------|---------------------------|
| Prepared By: Pamela Leary | Phone: (907)465-2350 |
| Division: Treasury | Date: 01/16/2015 12:00 AM |
| Approved By: Randall Hoffbeck | Date: 01/16/15 |
| Agency: Commissioner | |

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2015 LEGISLATIVE SESSION**Analysis**

This bill removes the nominal return target of at least 7% and directs the commissioner to invest the fund in a manner to meet the objectives of funds. This will allow the commissioner the ability to target a lower nominal rate with less risk associated than the 7% minimum and still meet the financial needs of the program.

STATE CAPITOL
P.O. Box 110001
Juneau, AK 99811-0001
907-465-3500
fax: 907-465-3532



550 West Seventh Avenue, Suite 1700
Anchorage, AK 99501
907-269-7450
fax 907-269-7461
www.Gov.Alaska.Gov
Governor@Alaska.Gov

Governor Bill Walker
STATE OF ALASKA

January 28, 2015

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to the investment of the power cost equalization (PCE) endowment fund (AS 42.45.070).

The PCE endowment fund provides annual funding for the PCF and rural electric capitalization fund (AS 42.45.100). The primary purpose of the PCE and rural electric capitalization fund is to annually fund the PCE program, which reduces the cost of energy in areas of the state that experience high electric energy costs.

The bill would amend the powers of the Commissioner of Revenue to invest amounts in the PCE endowment fund. Existing law obligates the Commissioner of Revenue to invest the endowment fund "in a manner likely to achieve at least a seven percent nominal return over time." This investment mandate requires the Commissioner of Revenue to invest with excessive or undue risk in a low-rate environment. The investment strategy also does not enable the Commissioner of Revenue to match the endowment fund's investment policy to the needs of the PCE program. The bill would eliminate the riskier investment mandate and enable the Commissioner of Revenue to establish a more appropriate investment policy by considering the amounts of anticipated draws from the endowment fund that would be necessary to meet the financial needs of the power cost equalization program.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in cursive script that reads "Bill Walker".

Bill Walker
Governor

Enclosure



SB 34: An Act relating to investment of the Power Cost Equalization Endowment Fund

Bill Purpose

The bill:

- Removes the stated nominal investment return target of at least 7% from the statute and replaces it with a 4% return over a five-year period.
- Directs to commissioner of revenue to use this target return to invest in a manner to meet the objectives of the power cost equalization and rural electric capitalization program.
- Allows the fund to be invested in less risky investments, when appropriate, that will still meet the financial needs of the program.

The Act would become effective immediately upon signing.

Fund History

Power Cost Equalization Endowment Fund established in 2000 from a Constitutional Budget Reserve
Appropriation of \$100 million

Additional \$89.6 million received in 2002 from proceeds of the sale of the four dam pool hydroelectric project.

Additional appropriations of \$182.7 and \$400 million in 2007 and 2012

March 31, 2015 balance: \$980 million

Fund Return

Inception to date compounded annual return 6.05%