

**SB**

**34**

<TARGET><BILL>SB 34</BILL><SUBJECT>SB  
34</SUBJECT><COMM>SFIN29</COMM></TARGET>

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/25/15

FURTHER:

DATE TURNED  
IN TO OFFICE: \_\_\_\_\_

Finance Committee considered SENATE BILL NO. 34

## SB 34 PCE ENDOWMENT FUND INVESTMENT

"An Act relating to investment of the power cost equalization endowment fund; and providing for an effective date."

and recommends:

- be replaced with CS SB 34 (FIN)  Same Title  New Title
- adopt previous CS \_\_\_\_\_ (\_\_\_\_\_)  Same Title  New Title
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
REV			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	MICCICCI	✓			
	BISHOP	✓			
	Deputy	✓			
	Hoffman	✓			
	Olson	✓			
CO-CHAIR:	Kelly	✓			
CO-CHAIR:	MacKinnon	✓			

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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 PCE 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

# 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 ENDOWMENT FUND INVESTMENT  
 Sponsor: RLS 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	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2016 Request	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
<b>OPERATING EXPENDITURES</b>	<b>FY 2016</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

<b>Change in Revenues</b>							
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**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.

*Adopted  
4/13/15*

29-GS1018VH  
Nauman  
4/10/15

**CS FOR SENATE BILL NO. 34(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-NINTH LEGISLATURE - FIRST SESSION

**BY THE SENATE FINANCE COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to investment of the power cost equalization endowment fund; and**  
2 **providing for an effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **\* Section 1.** AS 42.45.080(a) is amended to read:

5 (a) The commissioner of revenue is the fiduciary of the fund. In managing the  
6 fund, the commissioner shall

7 (1) have the same powers and duties as are provided in AS 37.10.071;  
8 and

9 (2) invest the fund in a manner likely to achieve at least a **four**  
10 **[SEVEN] percent nominal return over a five-year period to meet the objectives of**  
11 **the power cost equalization and rural electric capitalization fund (AS 42.45.100)**  
12 **[TIME].**

13 **\* Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).



**State of Alaska  
Department of Revenue  
SB34 PCE Endowment Fund Investment**

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March 26, 2015

**Pamela Leary  
Gary Bader  
Treasury Division**



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# **SB 34 PCE Endowment Fund Investment**

## ***Fund Purpose:***

- **To fund the Power Cost Equalization & Rural Electric Capitalization Fund and to reimburse the costs associated with managing the fund.**
- **7% of the monthly average market value of the fund for the previous 3 fiscal years may be appropriated.**

## ***Fund History:***

- **2000-Power Cost Equalization Endowment Fund established from Constitutional Budget Reserve Appropriation of \$100 million**
- **2002-PCE receives \$89.6 million from proceeds of the sale of the four dam pool hydroelectric project.**
- **2007-Additional appropriation of \$182.7 million**
- **2012-Additional appropriation of \$400 million**
- **February 28, 2015 balance: \$986.27 million**

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# SB 34 PCE Endowment Fund Investment

## *SB34*

- **Removes the stated nominal return target of at least 7% from the statute.**
- **Allows the commissioner of revenue to invest the fund in a manner that can meet the objectives of the fund.**
- **Why? It allows the commissioner of revenue to invest in less risky investments, when appropriate, that will still meet the financial needs of the program.**
- **Zero Fiscal Note**

# 2015 Capital Market Expectations—Return and Risk

Summary of Callan's Long-Term Capital Market Projections (2015 – 2024)

Asset Class	Index	PROJECTED RETURN			PROJECTED RISK		Projected Yield	2014 - 2023		Geometric* Delta
		1-Year Arithmetic	10-Year Geometric*	Real	Standard Deviation	Sharpe Ratio		10-Year Geometric*	Standard Deviation	
<b>Equities</b>										
Broad Domestic Equity	Russell 3000	9.15%	7.60%	5.35%	19.00%	0.363	2.00%	7.60%	19.00%	0.00%
Large Cap	S&P 500	8.90%	7.50%	5.25%	18.30%	0.363	2.20%	7.50%	18.30%	0.00%
Small/Mid Cap	Russell 2500	10.15%	7.85%	5.60%	22.95%	0.344	1.40%	7.85%	22.95%	0.00%
International Equity	MSCI World ex USA	9.25%	7.50%	5.25%	20.20%	0.347	3.00%	7.50%	20.20%	0.00%
Emerging Markets Equity	MSCI Emerging Markets	11.45%	7.90%	5.65%	27.95%	0.329	2.50%	7.90%	27.95%	0.00%
Global ex-US Equity	MSCI ACWI ex USA	9.80%	7.80%	5.55%	21.45%	0.352	2.90%	7.80%	21.45%	0.00%
<b>Fixed Income</b>										
Short Duration	Barclays G/C 1-3	2.40%	2.40%	0.15%	2.25%	0.067	2.80%	2.75%	2.25%	-0.35%
Domestic Fixed	Barclays Aggregate	3.05%	3.00%	0.75%	3.75%	0.213	4.00%	3.00%	3.75%	0.00%
Long Duration	Barclays Long G/C	4.10%	3.50%	1.25%	11.40%	0.162	5.50%	4.10%	11.40%	-0.60%
TIPS	Barclays TIPS	3.10%	3.00%	0.75%	5.30%	0.160	4.00%	3.00%	5.30%	0.00%
High Yield	Barclays High Yield	5.50%	5.00%	2.75%	11.10%	0.293	7.00%	5.05%	11.45%	-0.05%
Non-US Fixed	Barclays Global Aggregate ex US	2.70%	2.30%	0.05%	9.40%	0.048	3.80%	2.75%	9.40%	-0.45%
Emerging Market Debt	EMBI Global Diversified	5.10%	4.70%	2.45%	10.00%	0.285	6.40%	4.90%	10.65%	-0.20%
<b>Other</b>										
Real Estate	Callan Real Estate	7.35%	6.15%	3.90%	16.50%	0.309	5.00%	6.15%	16.50%	0.00%
Private Equity	TR Post Venture Cap	13.55%	8.50%	6.25%	33.05%	0.342	0.00%	8.50%	33.05%	0.00%
Hedge Funds	Callan Hedge FoF Database	5.55%	5.25%	3.00%	9.30%	0.355	0.00%	5.10%	8.85%	0.15%
Commodities	Bloomberg Commodity	4.40%	2.75%	0.50%	18.50%	0.116	2.00%	3.05%	18.25%	-0.30%
Cash Equivalents	90-Day T-Bill	2.25%	2.25%	0.00%	0.90%	0.000	2.00%	2.00%	0.90%	0.25%
Inflation	CPI-U		2.25%		1.50%			2.25%	1.50%	0.00%

\* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).

Source: Callan Associates

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Alaska Department of Revenue  
**Treasury Division**

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State of Alaska > Revenue > Treasury > Investments > Power Cost Equalization Fund

### Investments

- Investments Home
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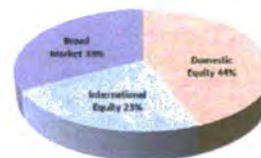
- Commissioner
- Treasury Division

## Power Cost Equalization Endowment Fund

The Alaska Legislature created the Power Cost Equalization (PCE) Endowment Fund under AS 42.45.070. The PCE Endowment Fund is established as a separate fund of the Alaska Energy Authority, a component unit of the State of Alaska. The purpose of the PCE Endowment Fund is to provide for a long-term, stable financing source for power cost equalization which provides affordable levels of electric utility costs in otherwise high-cost service areas of the state.

**PCE Market Value**  
**\$986.27M at 2/28/2015**

### Target Asset Allocation



### Current Fiscal Year

This list contains the following report types

- Cash Flow Information: Cash Flow Information
- Interim Financial Schedules: Shows investment value and earnings by asset class at month end and fiscal year to date

See our Power Cost Equalization Fund Archives page for more documents.

- Financial Schedule July 2014
- Financial Schedule August 2014
- Financial Schedule September 2014
- Financial Schedule October 2014
- Financial Schedule November 2014
- Financial Schedule December 2014
- Financial Schedule January 2015
- Financial Schedule February 2015

**For more information,  
 visit our website:  
<http://treasury.dor.alaska.gov/Investments/PowerCostEqualizationFund.aspx>**

# THANK YOU

Please find our contact information below:

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