

ALASKA LEGISLATURE

1147

HOUSE and SENATE FINANCE COMMITTEE FILES,

1993-1994

221

1 authorized by secs. 2 and 3 of this Act.

2 * Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

Alaska State Legislature

SENATOR
BERT SHARP

DISTRICT P

CHAIRMAN
TRANSPORTATION COMMITTEE

MEMBER
FINANCE COMMITTEE
LEGISLATIVE BUDGET & AUDIT COMMITTEE
HEALTH & SOCIAL SERVICES



FAIRBANKS

DENALI BANK BUILDING
119 N. CUSHMAN, SUITE 201
FAIRBANKS, ALASKA 99701
(907) 452-7885/7886

SESSION ADDRESS

STATE CAPITOL, ROOM 514
JUNEAU, ALASKA 99801-1182
(907) 465-3004/4921

Senate

SECTION ANALYSIS

SB - 106
4/13/93

SECTION 1. States the reasons the legislature has in adopting this program and expresses the intent of the legislature as to how this program is to be managed. Included is the intent that the power cost equalization program be funded for 20 years at \$17 million annually, and that the funds in the 4-dam pool account be used for electrical system improvements to benefit those communities.

SECTION 2. Authorizes the Alaska Energy Authority to contract with utilities to design and construct electric transmission lines when those utilities assume the risks of completion and cost overruns and when the utilities agree to pay all costs of operation and maintenance.

SECTION 3. Amends the definition of program receipts to include earnings of the energy authority revolving fund created in Section 7.

SECTION 4. Provides that the Department of Revenue shall invest the balance of the energy authority revolving fund.

SECTION 5-6. Are conforming amendments which change references from "power project fund" to "power project loan account."

SECTION 7. Creates the energy authority revolving fund which would be the consolidated fund for all income and assets of the energy authority except for the electrical service extension fund and the power cost equalization fund. All other funds or accounts which exist or may later be created in the Energy Authority would be



REPRESENTING
GOLDEN HEART
OF ALASKA

accounts within this fund. Income on assets of the authority would be received by this fund. The authority may make interest bearing loans from this fund to qualified borrowers in amounts not to exceed \$10 million, but all other uses of this fund would require legislative appropriations.

SECTION 8. Transfers the "power project fund" to the status of "power project loan account" within the new revolving fund.

SECTION 9. Transfers the loan programs of the energy authority to this new loan account and consolidates authority for fuel loans in this new account.

SECTION 10-11. Are conforming amendments which change references from "power project fund" to "power project loan account."

SECTION 12. Changes a reference from "power project fund" to "power project loan account." In addition, it provides that the legislature may specifically authorize no-interest loans for transmission interties.

SECTION 13. Provides that interest earned by loans from the new power project loan account will be deposited in the energy authority revolving fund.

SECTION 14-17. Are conforming amendments which change references from "power project fund" to "power project loan account."

SECTION 18. Is a conforming amendment which change a reference from "power development fund" to "power development account."

SECTION 19. Changes the power development fund to an account within the energy authority revolving fund called the "power development account"

SECTION 20. Is a conforming amendment changing references from "fund" to "account."

SECTION 21. Changes references from "fund" to "account," and it also repeals the requirement that income to this investment account must be deposited in the general fund.

SECTION 22. Is a conforming amendment which changes a reference from "fund" to "account."

SECTION 23. Provides a definition of "account" in this section to mean the power development account.

SECTION 24. Changes the name of the "power development revolving loan fund" to "power development revolving loan account."

SECTION 25. Creates the 4-dam pool account within the energy authority revolving fund. This account consists of 50% of the receipts from the 4-dam pool debt service.

SECTION 26-28. Are conforming amendments which change references from "fund" to "account."

SECTION 29. Defines "account" in that section as the power development loan account.

SECTION 30. Repeals the bulk fuel revolving loan fund which is consolidated with the power project loan account; it repeals the rural electrification revolving loan fund which has not been used since enactment of the electrical service extension fund; and it repeals a requirement that income earned from energy authority projects be deposited in the general fund.

SECTION 31. Authorizes design and construction of the proposed transmission intertie between Anchorage and the Kenai Peninsula.

SECTION 32. Authorizes design and construction of the proposed transmission intertie between Healy and Fairbanks.

SECTION 33. Conditions the authorizations given in Sections 30 and 31 upon the utilities agreeing to pay all completion costs above \$90 million and to pay all costs of operation and maintenance.

SECTION 34. Authorizes the design and construction of a transmission intertie between the Swan Lake and Tye Lake hydroelectric projects upon the condition that the utility agrees to pay completion costs above the \$20 million and to pay all costs of operation and maintenance.

SECTION 35. Authorizes the design and construction of a transmission intertie between Sutton and Glennallen upon the condition that utility agrees to pay for completion costs above \$35 million and to pay all costs of operation and maintenance, and upon the condition that the Office of Management and Budget approves the feasibility study submitted by the Energy Authority.

SECTION 36. Provides that AEA shall contract with utilities to design and construct transmission interties unless the utilities decline that opportunity.

SECTION 37. Provides for an effective date.

4-14-93
BS moved
Adopted
5-1

4/13/93 SB 106
workdraft 8-LSO594\C

AMENDMENT #2

page 17, line 23

delete [\$20,000,000]

insert \$35,000,000

page 18, line 10

delete [\$35,000,000]

insert \$27,500,000

SENATE FINANCE
COMMITTEE
Amendment Number: 2
Bill Number: SB 106
Sponsor: _____ Date: 4/14/93
Logged In By: [Signature]

4-14-93
B3-3
Adopted
5-1

SB 106
4/13/93 workdraft 8-LSO594\C

AMENDMENT #1

page 2, line 17 **delete** ✓

sub section [(d)]

page 14, line 16 **delete**

[section 25] ✓

page 17, line 13 **delete**

✓ [through a loan to the participating utilities for a term of 50 years at three percent annual interest].

page 18, line 1 thru line 2 **delete**

✓ [through a loan to the participating utility or utilities for a term of 50 years at three percent annual interest].

* Renumber sections and section references accordingly.

**SENATE FINANCE
COMMITTEE**
Amendment Number: ①
Bill Number: SB 106
Sponsor: _____ Date: 4/14/93
Logged In By: Bru

4-14-93
BS moved
Adopted

WORK DRAFT

WORK DRAFT

WORK DRAFT

8-LS0594C
Cramer
4/13/93

CS FOR SENATE BILL NO. 106()
IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): **SENATORS SHARP, Taylor, Miller**

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing the energy authority revolving fund; repealing the rural
2 electrification revolving loan fund and the bulk fuel revolving loan fund; relating
3 to procurements for certain transmission lines; authorizing power transmission
4 interties between Anchorage and the Kenai Peninsula, between Healy and
5 Fairbanks, between the Swan Lake and Tye Lake hydroelectric projects, and
6 between Sutton and Glennallen and approving the design and construction costs
7 of the interties; and providing for an effective date."

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

9 * Section 1. FINDINGS AND INTENT. (a) The legislature finds that adequate, reliable,
10 electric service at affordable rates is a necessary ingredient of a modern society and a
11 prosperous developing economy. The legislature further finds that at the current stage of
12 social and economic development in the state, direct participation by the state is necessary to
13 assist in the development of a regional electric transmission infrastructure and to assist in

1 holding rates in high cost service areas to affordable levels.

2 (b) The legislature intends that the energy authority revolving fund, created by sec. 7
3 of this Act, be managed so that

4 (1) the money granted for design and construction of the power transmission
5 interties authorized by secs. 31, 32, 34, and 35 of this Act is disbursed as work progress
6 payments;

7 (2) money is provided to allow the funding source for the power cost
8 equalization program (AS 44.83.162 - 44.83.164) to be changed from the general fund to the
9 energy authority revolving fund; funding for power cost equalization from the general fund
10 and the energy authority revolving fund combined is intended to be \$17,000,000 annually
11 through fiscal year 2013.

12 (c) The legislature further intends that this long-term commitment to the power cost
13 equalization program will permit and encourage the electric utility industry and its lenders to
14 develop the plans, make the investments, and take other actions that are necessary or prudent
15 to prepare to meet the utility needs of residents in rural Alaska without this assistance from
16 the state.

17 (d) It is the intent of the legislature that money deposited in the four dam pool
18 account, enacted by sec. 25 of this Act, may be appropriated by the legislature to finance the
19 planning, rehabilitation, construction, and improvements to the four dam pool hydroelectric
20 projects and for other public purposes. Improvements to the projects may include the addition
21 of new hydroelectric generating capacity, the construction of interties to make the projects
22 more efficient, and other improvements to the system. The legislature should be guided in
23 establishing a priority for expenditures for the four dam pool projects by a majority vote of
24 the public utilities that are members of the project management committee under the power
25 sales agreement for the four dam pool hydroelectric power projects.

26 * Sec. 2. AS 36.30.850(b) is amended by adding a new paragraph to read:

27 (30) contracts between the Alaska Energy Authority and one or more
28 public utilities for the design and construction of an electric transmission line but only
29 if the utility or utilities have agreed, in writing, to pay the

30 (A) design and construction costs of the lines, after the
31 deduction of money appropriated for that purpose by the state, and to provide

1 for the repayment of any loans or bonded indebtedness related to the project.
2 regardless of final completion costs and unforeseen expenses; and

3 (B) operation and maintenance costs of the project.

4 * Sec. 3. AS 37.05.146 is amended to read:

5 Sec. 37.05.146. DEFINITION OF PROGRAM RECEIPTS. In AS 37.05.142
6 - 37.05.146 and AS 37.07.080, "program receipts" means fees, charges, income earned
7 on assets, and other state money received by a state agency in connection with the
8 performance of its functions; all program receipts except the following are general fund
9 program receipts:

10 (1) federal receipts;

11 (2) University of Alaska receipts (AS 14.40.491);

12 (3) individual, foundation, or corporation gifts, grants, or bequests that
13 by their terms are restricted to a specific purpose;

14 (4) receipts of the following funds:

15 (A) highway working capital fund (AS 44.68.210);

16 (B) correctional industries fund (AS 33.32.020);

17 (C) loan funds;

18 (D) international airport revenue fund (AS 37.15.430);

19 (E) funds managed by the Alaska Housing Finance Corporation
20 (AS 18.56.020), the Alaska Railroad Corporation (AS 42.40.010), the
21 Municipal Bond Bank Authority (AS 44.85.020), the Alaska Aerospace
22 Development Corporation (AS 14.40.821), or the Alaska Industrial
23 Development and Export Authority (AS 44.88.020);

24 (F) fish and game fund (AS 16.05.100);

25 (G) school fund (AS 43.50.140);

26 (H) training and building fund (AS 23.20.130);

27 (I) retirement funds (AS 14.25, AS 22.25, AS 26.05.222,
28 AS 39.35, and former AS 39.37);

29 (J) permanent fund (art. IX, sec. 15, Alaska Constitution);

30 (K) public school fund (AS 37.14.110);

31 (L) second injury fund (AS 23.30.040);

- 1 (M) fishermen's fund (AS 23.35.060);
2 (N) FICA administration fund (AS 39.30.050);
3 (O) receipts of the employee benefits program established u.
4 AS 39.30.150 - 39.30.180;
5 (P) receipts of the deferred compensation program established
6 under AS 39.45; [.]
7 (Q) the energy authority revolving fund (AS 44.83.107); [.]
8 (5) receipts of or from the trust established by AS 37.14.400 -
9 37.14.450, except reimbursements described in AS 37.14.410.

10 * Sec. 4. AS 44.25.020 is amended to read:

11 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue
12 shall

- 13 (1) enforce the tax laws of the state;
14 (2) collect, account for, have custody of, invest, and manage all state
15 funds and all revenues of the state except revenues incidental to a program of licensing
16 and regulation carried on by another state department and funds managed and invested
17 by the Alaska State Pension Investment Board;
18 (3) register cattle brands;
19 (4) supply necessary clerical and administrative services for the
20 Alcoholic Beverage Control Board;
21 (5) invest [AND MANAGE] the balance of the power development
22 account in the energy authority revolving fund in accordance with AS 44.83.386;
23 (6) in accordance with the policies established by the board of trustees
24 of the Alaska State Pension Investment Board, collect, account for, have custody of,
25 invest, and manage the state funds for which the board is responsible.

26 * Sec. 5. AS 44.83.080(16) is amended to read:

- 27 (16) to recommend to the legislature
28 (A) the issuance of general obligation bonds of the state to
29 finance the construction of a power project if the authority first determines that
30 the project cannot be financed by revenue bonds of the authority at reasonable
31 rates of interest;

1 (B) the pledge of the credit of the state to guarantee repayment
2 of all or any portion of revenue bonds issued to assist in construction of power
3 projects;

4 (C) an appropriation from the general fund

5 (i) for debt service on bonds or other project purposes;

6 or

7 (ii) to reduce the amount of debt financing for the
8 project;

9 (D) an appropriation to the power project ~~to~~ account
10 [POWER PROJECT FUND] for a power project;

11 (E) [REPEALED]

12 (F) development of a project under financing arrangements
13 with other entities using leveraged leases or other financing methods;

14 ~~(F)~~ (G) an appropriation for a power project acquired or
15 constructed under AS 44.83.380 - 44.83.425 (energy program for Alaska)

16 * Sec. 6. AS 44.83.105 is amended to read:

17 Sec. 44.83.105. BONDS FOR POWER PROJECTS UNDER THE ENERGY
18 PROGRAM FOR ALASKA. The authority may borrow money and issue its bonds
19 for the acquisition or construction of power projects to be acquired or constructed
20 under the energy program for Alaska. The principal of and interest on the bonds are
21 payable from money derived from the sale of wholesale power from power projects
22 financed under AS 44.83.380 - 44.83.425 from the power development account
23 [FUND] or from a source referred to in AS 44.83.100 as the authority determines. The
24 bonds may be issued if

25 (1) appropriations to the power development account [FUND] for the
26 power project are insufficient to cover the cost of acquiring or constructing the power
27 project; and

28 (2) the authority determines that the amount of interest the authority
29 will pay on its bonds is not more than alternative costs of securing money from other
30 sources, except for the general fund, to pay for the acquisition or construction of the
31 power project.

1 * Sec. 7. AS 44.83 is amended by adding a new section to read:

2 Sec. 44.83.107. ENERGY AUTHORITY REVOLVING FUND. (a) The
3 energy authority revolving fund is established in the authority. The revolving fund
4 consists of

- 5 (1) appropriations made to it by the legislature;
- 6 (2) money or other assets transferred to it by the authority;
- 7 (3) unrestricted payments on loans made or purchased by the authority;
- 8 (4) income and interest on amounts in the fund; and
- 9 (5) all revenue of the authority not otherwise required to pay the
10 expenses of authority projects.

11 (b) The board of directors of the authority may establish operations, renewal
12 and replacement, capitalization, and self-insurance reserve accounts within the
13 revolving fund.

14 (c) Unless otherwise expressly stated, the accounts created in this chapter,
15 including the power project loan account under AS 44.83.170, the power development
16 account under AS 44.83.382, and the power development revolving loan account under
17 AS 44.83.500, are accounts of the energy authority revolving fund. The electrical
18 service extension fund under AS 44.83.370 and the power cost equalization fund under
19 AS 44.83.162 are not accounts of the energy authority revolving fund. The authority
20 may create additional funds or accounts either within the revolving fund or outside the
21 fund. Subject to agreements made with the holders of the authority's bonds or with
22 other persons and subject to any restrictions placed upon legislative appropriations, the
23 authority may transfer amounts in a fund or account in the revolving fund to another
24 fund or account within the revolving fund.

25 (d) The foreclosure expense account is established as a special account in the
26 energy authority revolving fund as a reserve from fund equity. The authority may
27 spend money credited to the foreclosure expense account when necessary to protect the
28 state's security interest in collateral on loans made under this chapter or to defray
29 expenses incurred during foreclosure proceedings after a default by an obligor.

30 (e) The authority may

- 31 (1) pledge amounts in the revolving fund to secure bonds of the

1 authority; or

2 (2) enter into agreements with respect to the revolving fund that it
3 considers necessary to secure its bonds.

4 (f) The authority may loan amounts from the revolving fund for any purpose
5 authorized by this chapter. A loan from the fund in an amount greater than
6 \$10,000,000 must be specifically authorized by the legislature. The authority may
7 invest in projects or programs that are expressly authorized by the legislature under
8 AS 44.83.185 and in projects or programs for which the legislature has made a specific
9 appropriation to the fund.

10 (g) The legislature may appropriate amounts in the revolving fund to the
11 authority for the cost of the power cost equalization program, for administering the
12 fund, and for other programs and projects of the authority or to other public purposes.
13 Money in the fund does not lapse.

14 * Sec. 8. AS 44.83.170(a) is amended to read:

15 (a) ~~The~~ [THERE IS ESTABLISHED AS A SEPARATE FUND THE] power
16 project loan account is established in the energy authority revolving fund. The
17 account consists of

18 (1) appropriations to the account;

19 (2) unrestricted payments on loans made from or purchased by the

20 account;

21 (3) income and interest on amounts in the account; and

22 (4) other money and other assets transferred to or deposited in the

23 account as directed by resolution of the board of directors of the authority [FUND
24 THAT SHALL BE DISTINCT FROM ANY OTHER MONEY OR FUNDS OF THE
25 AUTHORITY, AND THAT INCLUDES ONLY MONEY APPROPRIATED BY THE
26 LEGISLATURE].

27 * Sec. 9. AS 44.83.170(b) is amended to read:

28 (b) The authority may make loans from the power project loan account
29 [FUND]

30 (1) to electric utilities, regional electric authorities, municipalities,
31 [CITIES, BOROUGHES,] regional and village corporations, village councils, and

1 nonprofit marketing cooperatives to pay the costs of

2 (A) reconnaissance studies, feasibility studies, license and
3 permit applications, preconstruction engineering, and design of power projects;

4 (B) constructing, equipping, modifying, improving, and
5 expanding small-scale power production facilities, conservation facilities, bulk
6 fuel storage facilities, and transmission and distribution facilities, including
7 energy production, transmission and distribution, and waste energy conservation
8 facilities that depend on fossil fuel, wind power, tidal, geothermal, biomass,
9 hydroelectric, solar or other non-nuclear energy sources: [AND]

10 (C) reconnaissance studies, preconstruction engineering, design,
11 construction, equipping, modification, and expansion of potable water supply
12 including surface storage and groundwater sources and transmission of water
13 from surface storage to existing distribution systems; and

14 ~~(D) acquisition of bulk fuel and bulk fuel reserves:~~

15 (2) to a borrower for a power project if

16 (A) the loan is entered into under a leveraged lease financing
17 arrangement;

18 (B) the party that will be responsible for the power project is
19 an electric utility, regional electric authority, municipality, [CITY,
20 BOROUGH,] regional or village corporation, village council, or nonprofit-
21 marketing cooperative; and

22 (C) the borrower seeking the loan demonstrates to the authority
23 that the financing arrangement for the power project will reduce project
24 financing costs below costs of comparable public power projects.

25 * Sec. 10. AS 44.83.170(c) is amended to read:

26 (c) Before making a loan from the power project loan account [FUND], the
27 authority shall, by regulation, specify

28 (1) standards for the eligibility of borrowers and the types of projects
29 to be financed with loans;

30 (2) standards regarding the technical and economic viability and
31 revenue self-sufficiency of eligible projects;

- 1 (3) collateral or other security required for loans,
2 (4) the terms and conditions of loans;
3 (5) criteria to establish financial feasibility and to measure the amount
4 of state assistance necessary for particular projects to meet the financial feasibility
5 criteria; and
6 (6) other relevant criteria, standards, or procedures.

7 * Sec. 11. AS 44.83.170(e) is amended to read:

8 (e) Repayment of the loans shall be secured in any manner that the authority
9 determines is feasible to assure prompt repayment under a loan agreement entered into
10 with the borrower. The authority may make an unsecured loan from the power project
11 loan account [FUND] to a borrower regulated by the Alaska Public Utilities
12 Commission under AS 42.05 if the borrower has a substantial history of repaying
13 long-term loans and the capacity to repay the loan. Under a loan agreement,
14 repayment may be deferred for 10 years or until the project for which the loan is made
15 has achieved earnings from its operations sufficient to pay the loan, whichever is
16 earlier.

17 * Sec. 12. AS 44.83.170(f) is amended to read:

18 (f) Power projects are subject to the following limitations on interest and
19 specific restrictions:

20 (1) power projects for which loans are outstanding from the former
21 water resources revolving loan fund under former AS 45.86 on July 13, 1978, may
22 receive additional financing from the power project loan account [FUND]; the
23 additional financing, if granted, must be

24 (A) granted for a term not exceeding 50 years;

25 (B) granted at an interest rate of not less than three or more
26 than five percent a year on the unpaid balance;

27 (C) conditioned on the repayment of loan principal and interest
28 to begin on the earlier of

29 (i) the date of the start of commercial operation of the
30 project; or

31 (ii) 10 years from the date the loan is granted;

1 (2) loans for power projects [SHALL BE GRANTED]

2 (A) may be granted for a term not to exceed 50 years: [AND]

3 (B) except as provided in (C) of this paragraph, shall have
4 [AT] an interest rate that is not less than five percent and that is the lesser of

5 (i) a rate equal to the percentage that is the average
6 weekly yield of municipal bonds for the 12 months preceding the date
7 of the loan, as determined by the authority from municipal bond yield
8 rates reported in the 30-year revenue index of the Weekly Bond Buyer;
9 or

10 (ii) a rate determined by the authority that allows the
11 project to meet criteria of financial feasibility established under (c) of
12 this section; and

13 (C) may have an interest rate that is as low as zero percent
14 if the legislature specifically authorizes the no-interest loan or if the loan
15 is for a transmission intertie project that connects two or more utility
16 systems not previously connected or that provides a second circuit to
17 improve the reliability and transfer capability of an existing system.

18 * Sec. 13. AS 44.83.170(g) is amended to read:

19 (g) Loan repayments and interest earned by loans from the power project loan
20 account [FUND] shall be deposited in the energy authority revolving [STATE
21 GENERAL] fund.

22 * Sec. 14. AS 44.83.170(h) is amended to read:

23 (h) The legislature may forgive the repayment of a loan made from the power
24 project loan account [FUND] for a reconnaissance study or a feasibility study when
25 the authority finds that the power project for which the loan was made is not feasible.

26 * Sec. 15. AS 44.83.170(i) is amended to read:

27 (i) Money in the power project loan account [FUND] may be used by the
28 legislature to make appropriations for costs of administering the fund.

29 * Sec. 16. AS 44.83.181(c) is amended to read:

30 (c) The plan of finance must include recommendations of the most appropriate
31 means to finance a project, including, but not limited to,

- 1 (1) the issuance of revenue bonds of the authority;
 2 (2) the issuance of
 3 (A) general obligation bonds of the state; or
 4 (B) revenue bonds of the authority that are guaranteed or
 5 partially guaranteed by the state;
 6 (3) an appropriation from the general fund
 7 (A) to pay debt service on bonds or for other project purposes;
 8 or
 9 (B) to reduce the amount of debt financing for the project;
 10 (4) a loan from the general fund;
 11 (5) financing arrangements with other entities using leveraged leases
 12 or other financing methods;
 13 (6) assistance from any federal agency, including, but not limited to,
 14 the Rural Electrification Administration;
 15 (7) a loan from the power project loan account [FUND] under
 16 AS 44.83.170(a); or
 17 (8) any combination of financing arrangements listed in this subsection.

18 * **Sec. 17.** AS 44.83.187(a) is amended to read:

- 19 (a) The provisions of AS 44.83.177 - 44.83.185 and 44.83.189 apply only to
 20 a proposed new project that will generate more than 1.5 megawatts of power and
 21 (1) requires an appropriation from the state general fund or [,] from the
 22 power project loan account [FUND, OR FROM THE RENEWABLE RESOURCES
 23 FUNDS]; or
 24 (2) is based on a plan of finance that requires the issuance of general
 25 obligation bonds or other pledge of the credit of the state.

26 * **Sec. 18.** AS 44.83.380(b) is amended to read:

- 27 (b) The energy program for Alaska is a program by which the authority may
 28 acquire or construct power projects with money appropriated by the legislature to the
 29 power development account [FUND] established in AS 44.83.382. A power project
 30 may be acquired or constructed as part of the energy program for Alaska only if the
 31 project is submitted to and approved by the legislature in accordance with procedures

1 set out in AS 44.83.177 - 44.83.187.

2 * Sec. 19. AS 44.83.382 is amended to read:

3 Sec. 44.83.382. POWER DEVELOPMENT ACCOUNT [FUND]
4 ESTABLISHED. (a) The [A] power development account [FUND] is established in
5 the Alaska Energy Authority to carry out the purposes of AS 44.83.380 - 44.83.425.

6 (b) The account [FUND] includes money appropriated to it by the legislature.

7 * Sec. 20. AS 44.83.384 is amended to read:

8 Sec. 44.83.384. USE OF ACCOUNT [FUND] BALANCE. (a) The account
9 [FUND] may be used by the authority to provide money for

10 (1) reconnaissance and feasibility studies and power project finance
11 plans prepared under AS 44.83.177 - 44.83.181;

12 (2) the cost of a power project, including but not limited to costs of
13 acquiring necessary licenses, preparing engineering designs, obtaining land, and
14 constructing the power project;

15 (3) the defeasance of bonds, or the payment of debt service on loans
16 for or on an issue of bonds sold in connection with a power project;

17 (4) the cost of operating and maintaining power projects; and

18 (5) debt service on power projects.

19 (b) Money in the account [FUND] may be used under (a) of this section only
20 for a power project that

21 (1) is economically feasible; and

22 (2) provides the lowest reasonable power cost to utility customers in
23 the market area for the estimated life of the power project, whether operated by itself
24 or in conjunction with other power projects in the market area, and that operates or
25 will operate on one or more of the following:

26 (A) renewable energy resources, including but not limited to
27 hydroelectric power, wind, biomass, geothermal, tidal or solar energy, or a
28 method that uses temperature differentials or other physical properties of the
29 ocean;

30 (B) coal or peat;

31 (C) energy derived from waste heat; or

1 (D) fossil fuel, including oil or natural gas.

2 (c) Notwithstanding (b)(1) of this section and AS 44.83.396 - 44.83.398, the
3 account [FUND] may be used by the authority to provide money for the cost of a
4 power project that is or was either constructed or owned by the United States
5 government if the requirements of this subsection are met. The provisions of
6 AS 44.83.177 - 44.83.187 do not apply to a power project financed under this
7 subsection. The authority may use money in the account [FUND] for the cost of a
8 power project under this subsection if

9 (1) the legislature enacts a law approving the project;

10 (2) the office of management and budget in the Office of the Governor
11 reviews a feasibility study and a plan of finance for the project and determines that the
12 feasibility study complies with the requirements for a feasibility study submitted under
13 AS 44.83.181(b) and that the plan of finance complies with the requirements for a plan
14 of finance submitted under AS 44.83.181(c); and

15 (3) the project meets the other requirements of this chapter.

16 * Sec. 21. AS 44.83.386 is amended to read:

17 Sec. 44.83.386. INVESTMENT OF ACCOUNT [FUND]. The Department
18 of Revenue shall invest the money in the account [FUND] in accordance with
19 AS 37.10.070, 37.10.071, and 37.10.075. The Department of Revenue shall provide
20 money in the account [FUND] to the authority only after costs have been incurred or
21 amounts in the account [FUND] have been otherwise obligated under contracts for the
22 acquisition and construction of a project. Amounts that have been obligated, but for
23 which costs have not yet been incurred, may be segregated by the Department of
24 Revenue or transferred to the authority only with the prior approval or agreement of
25 the commissioner of revenue. [INCOME RECEIVED ON MONEY THAT IS
26 SEGREGATED OR TRANSFERRED UNDER THIS SECTION MUST BE
27 DEPOSITED IN THE GENERAL FUND.]

28 * Sec. 22. AS 44.83.388(a) is amended to read:

29 (a) The authority shall maintain records of power project allocations from the
30 account [FUND] for each power project

31 (1) approved in accordance with AS 44.83.185; and

1 (2) for which an allocation is made from an appropriation made by the
2 legislature without specifying an appropriation to a project.

3 * Sec. 23. AS 44.83.425 is amended by adding a new paragraph to read:

4 (6) "account" means the power development account established by
5 AS 44.83.382.

6 * Sec. 24. AS 44.83.500 is amended to read:

7 Sec. 44.83.500. CREATION OF ACCOUNT [FUND]. (a) There is
8 established in the Alaska Energy Authority the power development revolving loan
9 account [FUND] to carry out the purpose of AS 44.83.500 - 44.83.530. The account
10 [FUND] may be used for no other purpose.

11 (b) The account [FUND] consists of

12 (1) appropriations to the account [FUND] by the legislature;

13 (2) repayments of principal to the account [FUND]; and

14 (3) income from investment of money in the account [FUND] and
15 from loans made from the account [FUND].

16 * Sec. 25. AS 44.83 is amended by adding a new section to read:

17 Sec. 44.83.505. FOUR DAM POOL ACCOUNT. (a) There is created as an
18 account in the energy authority revolving fund the four dam pool account. The
19 account consists of money in the energy authority revolving fund that, beginning
20 July 1, 1993, can be attributed to 50 percent of the receipts from the hydroelectric
21 power projects that constitute the four dam pool. The legislature may appropriate the
22 money in the four dam pool account for projects related to the four dam pool and for
23 other purposes as provided by law.

24 (b) The authority may acquire or construct power projects with money in the
25 four dam pool account. In using money in the four dam pool account, the authority
26 has the same powers and duties as it has concerning the use of money in the power
27 development account under the energy program for Alaska.

28 (c) In this section, "four dam pool" means the hydroelectric facilities at Tye
29 Lake, Swan Lake, Solomon Gulch, and Terror Lake.

30 * Sec. 26. AS 44.83.510 is amended to read:

31 Sec. 44.83.510. POWERS AND DUTIES OF AUTHORITY IN

1 ADMINISTERING THE ACCOUNT [FUND]. (a) The authority may borrow from
2 the account [FUND] for the purpose of financing a power project acquired or
3 constructed by the authority under the energy program for Alaska (AS 44.83.380 -
4 44.83.425). Repayment of a loan from the account [FUND] must be made with the
5 proceeds from the sale of power from projects in the energy program for Alaska.
6 Except as provided in AS 44.83.398(i), the payments required to be made by the
7 authority on a loan from the account [FUND] constitute debt service for the purpose
8 of calculating the wholesale power rate in AS 44.83.398(b)(1).

9 (b) After completion of a final plan of finance and approval of a project under
10 AS 44.83.185(c), a loan may be made from the account [FUND] for

11 (1) the cost or a portion of the cost of final design, acquisition, and
12 construction of a power project;

13 (2) defeasance or payment of bonds or notes of the authority issued for
14 a power project;

15 (3) the establishment of a reserve fund for renewals and replacements
16 for the operation of a completed power project; and

17 (4) any other project-related expenses, including those described in
18 AS 44.83.398(i).

19 * Sec. 27. AS 44.83.520(a) is amended to read:

20 (a) A loan from the account [FUND] shall be repaid in accordance with the
21 terms that the authority's board of directors determines to be appropriate. In
22 establishing the terms, including provision for a return to the state of an amount in
23 excess of the principal amount of the loan, the board of directors shall consider the
24 revenue that the authority could reasonably derive from the sale of power from the
25 projects based upon

26 (1) the costs, at the time the power sales agreement is initially
27 negotiated or renegotiated, of alternative sources of energy generation for utilities
28 purchasing power from a project financed with a loan from the account [FUND];

29 (2) the effect of the loan terms on the wholesale power costs to all
30 utilities purchasing power from the initial project;

31 (3) the long-term benefits to consumers and communities of stable

1 wholesale power costs;

2 (4) the affordability of initial wholesale power costs that result from
3 the loan terms with utilities purchasing power from the initial project;

4 (5) increasing repayment, not to exceed five years, of debt service
5 payment per kilowatt hour gradually over the initial period of a loan repayment
6 schedule to the extent necessary to avoid significant rate increases to the consumer;

7 (6) the existing excess capacity of power projects; and

8 (7) the effects of increased capacity utilization, inflation, and alternative
9 energy production costs over the life of the initial project.

10 * Sec. 28. AS 44.83.520(c) is amended to read:

11 (c) A loan to the authority from the account [FUND] may not exceed 50
12 years.

13 * Sec. 29. AS 44.83.530 is amended by adding a new paragraph to read:

14 (3) "account" means the power development loan account.

15 * Sec. 30. AS 44.83.361, 44.83.363, 44.83.388(b), 44.83.425(3), 44.83.600, 44.83.605,
16 44.83.610, 44.83.615, 44.83.620, 44.83.625, 44.83.630, 44.83.392, and 44.83.650 are repealed.

17 * Sec. 31. In accordance with AS 44.83.185(c) and contingent upon secs. 33 and 36 of this
18 Act, the Alaska Energy Authority is authorized to provide for the design and construction of
19 a 138 kilovolt power transmission intertie between Anchorage and the Kenai Peninsula at a
20 cost of \$89,000,000 in 1992 dollars. However, the power transmission intertie authorized by
21 this section may be designed and constructed at a voltage higher than 138 kilovolts but only
22 if the state does not incur additional costs to do so.

23 * Sec. 32. In accordance with AS 44.83.185(c) and contingent upon secs. 33 and 36 of this
24 Act, the Alaska Energy Authority is authorized to provide for the design and construction of
25 a 138 kilovolt power transmission intertie between Healy and Fairbanks at a cost of
26 \$89,000,000 in 1992 dollars. However, the power transmission intertie authorized by this
27 section may be designed and constructed at a voltage higher than 138 kilovolts but only if the
28 state does not incur additional costs to do so.

29 * Sec. 33. (a) The authorizations made by secs. 31 and 32 of this Act are contingent upon
30 written agreements between the Alaska Energy Authority and the electric utilities participating
31 in the projects authorized by those sections providing that the participating utilities agree to

1 pay

2 (1) design and construction costs for the power transmission interties
3 authorized by secs. 31 and 32 of this Act that exceed \$90,000,000; these costs shall be divided
4 among the utilities in proportion to the retail kilowatt hour sales of each utility during the
5 previous calendar year; and

6 (2) the operation and maintenance costs of the power transmission interties
7 authorized by secs. 31 and 32 of this Act.

8 (b) Notwithstanding AS 42.05, the Alaska Public Utilities Commission may not review
9 the design and construction costs divided among the utilities under (a)(1) of this section.

10 * Sec. 34. (a) In accordance with AS 44.83.185(c) and contingent upon (b) and (c) of this
11 section and sec. 36 of this Act, the Alaska Energy Authority is authorized to provide for the
12 design and construction of a 115 kilovolt power transmission intertie between the Swan Lake
13 and the Tyee Lake hydroelectric projects at a cost of \$56,000,000 in 1992 dollars through a
14 loan to the participating utility or utilities for a term of 50 years at three percent annual
15 interest. However, the power transmission intertie authorized by this section may be designed
16 and constructed at a voltage higher than 115 kilovolts but only if the state does not incur
17 additional costs to do so.

18 (b) The authorization made by (a) of this section is contingent upon the execution of
19 a written agreement between the electric utilities participating in the project authorized by this
20 section and the Alaska Energy Authority that provides that the participating utility or utilities
21 agree to pay

22 (1) design and construction costs for the power transmission intertie authorized
23 by (a) of this section that exceed \$20,000,000; and

24 (2) the operation and maintenance costs of the power transmission intertie
25 authorized by (a) of this section.

26 (c) The authorization made by (a) of this section is contingent upon the completion
27 of the requirements set out in AS 44.83.181 and 44.83.185(a). The Alaska Energy Authority
28 shall notify the revisor of statutes of the completion of these requirements.

29 * Sec. 35. (a) In accordance with AS 44.83.185(c) and contingent upon (b) and (c) of this
30 section and sec. 36 of this Act, the Alaska Energy Authority is authorized to provide for the
31 design and construction of a 138 kilovolt power transmission intertie between Sutton and

1 Glennallen at a cost of \$50,000,000 in 1992 dollars through a loan to the participating utility
2 or utilities for a term of 50 years at three percent annual interest. However, the power
3 transmission intertie authorized by this section may be designed and constructed at a voltage
4 higher than 138 kilovolts but only if the state does not incur additional costs to do so.

5 (b) The authorization made by (a) of this section is contingent upon the execution of
6 a written agreement between the electric utility or utilities participating in the project
7 authorized by this section and the Alaska Energy Authority that provides that the participating
8 utility or utilities agree to pay

9 (1) design and construction costs for the power transmission intertie authorized
10 by (a) of this section that exceed \$35,000,000; and

11 (2) the operation and maintenance costs of the power transmission intertie
12 authorized by (a) of this section.

13 (c) The authorization made by (a) of this section is contingent upon the completion
14 of the requirements set out in AS 44.83.181 and 44.83.185(a) and approval of the feasibility
15 study by the office of management and budget. The Alaska Energy Authority shall notify the
16 revisor of statutes of the completion of these requirements.

17 * Sec. 36. In providing for the design and construction of the interties authorized by secs.
18 31, 32, 34, and 35 of this Act, the Alaska Energy Authority shall make loans to the
19 appropriate participating utilities or award grants to them to the extent permitted by the
20 appropriation for the costs unless the participating utility declines in writing to apply for the
21 loan or grant. If the participating utility declines in writing to apply for the loan or grant, the
22 authority may proceed with the design or construction itself.

23 * Sec. 37. Sections 1 - 30 of this Act take effect immediately under AS 01.10.070(c).

SB 106: "An Act relating to authorization of Anchorage-Kenai, Healy-Fairbanks, and Tyee-Swan interties."

The bill includes several provisions:

1. Authorizes design and construction of three 138 kV transmission lines (Anchorage-Kenai, Healy-Fairbanks, and Tyee-Swan) in accordance with AS 44.83.185(c).
2. Approves a construction cost for each project in accordance with AS 44.83.185(c).
3. Requires that the Anchorage-Kenai and Healy-Fairbanks transmission lines be capable of upgrade to 230 kV.
4. Makes project authorization of the Anchorage-Kenai and Healy-Fairbanks interties contingent upon agreement by participating utilities to pay 50 percent of design and construction costs, and all operations and maintenance costs.
5. Expresses the intent of the Legislature that the Energy Authority finance the Tyee-Swan project with revenue bonds to be repaid from Four Dam Pool power sales.

The Alaska Energy Authority (AEA) supports the authorization of the Anchorage-Kenai and Healy-Fairbanks 138 kV transmission line projects. This position is supported by a feasibility study issued by AEA in March 1991, which was adopted by the AEA Board of Directors and submitted to the Legislature at that time. AEA has proposed that the Governor submit legislation this year that would contain these project authorizations.

The AEA Board of Directors has not taken a position on the Tyee-Swan intertie, although a feasibility study issued by AEA in 1992 concluded that the project is economically feasible if electricity demand continues to grow in Ketchikan. AEA staff supports the project, but has proposed that other potential Southeast energy projects be reviewed and compared before a final commitment is made to Tyee-Swan. Also, note that the \$55.6 million cost estimate developed in the feasibility study is for a 115 kV line rather than 138 kV.

The construction costs appearing in SB 106 are drawn from AEA feasibility studies, but for clarity should indicate the price level associated with each estimate. The \$84.1 million and \$77.6 million estimates for the Railbelt interties were both developed in January 1991 dollars. The \$55.6 million estimate for Tyee-Swan was developed in 1992 dollars.

POSITION PAPER

SB 106

Page 2

With respect to the Anchorage-Kenai line, there is significant uncertainty in the cost estimate due, in part, to questions about the necessity of burying the submarine cable, questions that will not be resolved until the design stage. There are significant cost issues with respect to Healy-Fairbanks as well. Because of this uncertainty, the proposed AEA legislation includes a provision that, if actual construction cost exceeds the cost approved in the authorization act, project authorization will remain effective provided that no portion of the excess costs are payable by the state (i.e., that the utilities agree to pay such excess costs).

AEA does not support the language in SB 106 requiring that the Anchorage-Kenai and Healy-Fairbanks lines be capable of being upgraded to 230 kV. This language would essentially require that each line be built initially to 230 kV standards in terms of structure size for the overhead towers and cable capacity for the submarine cable, all at a cost substantially higher than the cost estimates proposed for approval. If the overhead towers and submarine cable are sized for 138 kV operation, they would essentially have to be replaced in order to "upgrade" to 230 kV.


AEA supports the concept of requiring the participating utilities to pay a substantial portion of construction costs for the Railbelt interties, and all operations and maintenance costs. However, we are pursuing an approach by which the state would contract with the utilities for construction of the projects, limit the state's contribution to a fixed amount, and shift the risk of cost overrun to the utilities. In contrast, SB 106 would commit the state to 50 percent of whatever the actual construction costs turned out to be.

There is ambiguity in the expression of legislative intent for the financing of the Tyee-Swan project; specifically, whether the Four Dam Pool power sales revenue dedicated to paying off the intertie revenue bonds is intended to be additional revenue to be realized by increasing the Four Dam Pool wholesale power rate, or is intended to be a portion of the revenue stream that is presently projected given no change in the existing power sales agreement. If additional revenue is intended from an increase in the wholesale power rate, agreement by all five of the Four Dam Pool utilities would be necessary to change the wholesale power contract accordingly. This seems to us unlikely. However, the existing revenue stream is pledged for repayment of the AEA loan from the Power Development Revolving Fund. We believe that at least part of this loan would have to be forgiven by the Legislature or appropriated to AEA before the loan repayments could be diverted for payment of revenue bond debt service.

POSITION PAPER
SB 106
Page 3

AEA would oppose the idea of financing 100 percent of the Tyee-Swan construction cost from the existing power sales revenue stream because it would mean no contribution from the affected communities toward the payment of intertie construction costs beyond what they are already paying on existing debt. AEA and the administration have adopted a policy of seeking a reasonable contribution from the communities that benefit from state capital projects, both as a way of leveraging limited state funds and as a way to ensure that such projects are important to the people they would serve. If revenue bonds were issued to pay the full cost of the Tyee-Swan intertie, debt service payments would be expected to exceed \$5 million per year, or roughly half of the expected Four Dam Pool power sales revenue stream.

Finally, the AEA position on similar bills introduced in the House (see Position Paper on HB 50 and HB 51) applies to SB 106 as well. While the projects in SB 106 would provide benefit to particular regions of the state, it does not address the overall state energy needs. A comprehensive approach is imperative if we hope to succeed in providing efficient power at reasonable cost to all areas of our state.



Paul Fuhs, Commissioner
2-24-93

Date

ALASKA ENERGY AUTHORITY
CSSB 106 Projected Fiscal Changes

		PCE Administration		PCE Grants		Annual Reduction in General Fund Appropriations
YEAR	Gen Fund	AEA Revolving Fund (GF Savings)	Gen Fund	AEA Revolving Fund (GF Savings)		
1994	182.0		17,000.0	0.0		0.0
1995	190.2		14,571.0	2,429.0		2,429.0
1996	198.7		12,143.0	4,857.0		4,857.0
1997	207.7		9,714.0	7,286.0		7,286.0
1998	217.0		7,286.0	9,714.0		9,714.0
1999	226.8		4,857.0	12,143.0		12,143.0
2000	237.0		2,429.0	14,571.0		14,571.0
2001		247.7		17,000.0		17,247.7
2002		258.8		17,000.0		17,258.8
2003		270.5		17,000.0		17,270.5
2004		282.6		17,000.0		17,282.6
2005		295.4		17,000.0		17,295.4
2006		308.7		17,000.0		17,308.7
2007		322.5		17,000.0		17,322.5
2008		337.1		17,000.0		17,337.1
2009		352.2		17,000.0		17,352.2
2010		368.1		17,000.0		17,368.1
2011		384.6		17,000.0		17,384.6
2012		401.9		17,000.0		17,401.9
2013		420.0		17,000.0		17,420.0
Totals	1,459.5	4,250.1	68,000.0	272,000.0		276,250.1

Analysis
Fiscal Note CSSB106

The legislation affects three components of the Alaska Energy Authority (AEA) budget - Power Cost Equalization (PCE) Grants, PCE Administration and AEA Operations.

Over a 20-year period, the bill would shift funding for the PCE program away from the general fund to a new Energy Authority revolving fund. This shift, as intended by the legislation, would save the general fund \$272,000,000 in funding for PCE grants and \$4,250,100 in estimated general funds for PCE Administration. The legislature would reappropriate funds from the revolving fund to the PCE or other programs as they decide.

The bill also authorizes four interties and a companion bill SB126 appropriates state monies for partial funding of their construction. The balance of funds required would be provided through the issuance of bonds after suitable contracts were executed. The AEA Operations component would require an influx of money from the revolving fund in the early years to fund the staff and contractual efforts required to execute the contracts for design and construction of the projects and to finance the balance. As the projects came on-line, AEA would receive monies from the utilities to pay for the operation and maintenance of the projects beginning in the FY99 fiscal year as general fund/program receipts. While these are displayed on the fiscal notes, such restricted receipts will be revenue neutral and would not need to be shown if AEA's O&M receipts were also removed as general fund program receipts by a change to AS 37.05.146. As the bill stands, the O&M receipts would still need to be appropriated by the legislature from monies collected from the utilities receiving the intertie service.

**Testimony of Daniel E. Bloomer--Chugach Electric Association, Inc.
On SB 106 & 126**

**Before Senate Finance Committee
April 15, 1993**

Thank you for the opportunity to present Chugach Electric Association's comments on SB 106/126. As many of you know, Chugach is the largest electric utility in the state of Alaska, providing service to more than 63,000 customers in the Anchorage bowl and upper Kenai Peninsula.

Chugach is also the largest generator and transmitter of electricity in Alaska. In addition to generating power for our own customers, Chugach also produces the electricity used by Matanuska Electric Association in Palmer (29,000 customers), Homer Electric Association on the Kenai Peninsula (18,000 customers), City of Seward (2,600) customers, and sells economy energy to Golden Valley Electric Association in Fairbanks (27,000 customers). Therefore, Chugach has substantial interest in this legislation.

The bills before you, as amended yesterday, present a solid energy package that will help to strengthen power systems throughout the state. In the Railbelt, the new interties will improve the ability to transfer Bradley Lake power throughout the region and reduce operating costs for the utilities. The Sutton to Glennallen intertie will electrically tie the Copper River Basin and City of Valdez into the railbelt providing those areas with access to inexpensive reliable electricity. The Swan-Tyee intertie will enhance southeast's ability to utilize their hydroelectric facilities and ultimately reduce costs for all of the four-dam pool participants. PCE funding gives our rural systems financial support which allows them time to resolve their energy problems.

In a nutshell, these bills represent a good energy package that addresses a majority of the electrical needs in Alaska. The utilities are united in our support for the package and we urge your support to move the bills to the Senate floor. Thanks again for the opportunity to comment on these bills.

Alaska Village Electric Cooperative, Inc.
4831 Eagle Street
Anchorage, Alaska 99503
561-1818

April 15, 1993

Memo to: Senate Finance Committee

From: Charlie Walls, General Manager *CYW*

Re: SB 106/126 -Energy Plan

The Alaska Village Electric Cooperative (AVEC) is a bush electric utility system that serves a population of about 20,000 rural people who live in 49 villages. This summer that will increase to 50 villages with the community of Brevig Mission joining us.

The power cost equalization program is of critical importance to rural Alaska. We have followed the progression of SB106/126 and support the bill as amended on April 14. Our bottom line is twenty year funding for the PCE program at \$17 million per year. The cash flow will enable us to move toward the goal of self sufficiency. When we talk with the federal government about loans for our villages, the fact that the state has made a long term committment will greatly enhance our abilitiy to increase federal participation in solving the rural energy problems.

We also support the state investing in the transmission interties. This strengthened infrastructure will provide the means for future economic development in the state. The bill is a good balance for the whole state.

We fully support the bills in their present form and urge reporting them out of the Senate Finance Committee.

Alaska State Legislature

SENATOR
BERT SHARP
DISTRICT P
CHAIRMAN
TRANSPORTATION COMMITTEE
MEMBER
FINANCE COMMITTEE
LEGISLATIVE BUDGET & AUDIT COMMITTEE
HEALTH & SOCIAL SERVICES



FAIRBANKS
DENALI BANK BUILDING
119 N. CUSHMAN, SUITE 201
FAIRBANKS, ALASKA 99701
(907) 452-7885/7886
SESSION ADDRESS
STATE CAPITOL, ROOM 514
JUNEAU, ALASKA 99801-1182
(907) 465-3004/4921

Senate

MEMORANDUM

TO: Senator Drue Pearce, Co-Chairperson
Senate Finance Committee

FROM: Senator Bert Sharp *BMS*

RE: Request for Hearing - SB-106

DATE: February 18, 1993

I am requesting Senate Bill 106; "An Act authorizing power transmission interties between Anchorage and the Kenai Peninsula, between Healy and Fairbanks, and between the Swan Lake and Tye Lake hydroelectric projects, and approving the design and construction costs of the interties; and providing for an effective date," be heard before the Senate Finance Committee.

Thank you for your consideration.



REPRESENTING
GOLDEN HEART
OF ALASKA

Chugach

 ELECTRIC ASSOCIATION, INC.

5801 Minnesota Drive
P.O. Box 198300
Anchorage, Alaska 99519-0300
Phone: 907-563-7494

FACSIMILE TRANSMITTAL SHEET

DATE:	March 3, 1993
TO:	Senator Taylor
COMPANY:	
LOCATION:	
FAX NO.:	465-3822 465-3922
FROM:	Tom Stevenson, Ketchikan Public Utilities
SUBJECT:	
COMMENTS/MESSAGE:	Mary - Give this to Senator Taylor. Thanks.
TOTAL NUMBER OF PAGES TRANSMITTING: <u>3</u> (Includes Cover Sheet)	
IF TRANSMISSION IS INCOMPLETE, PLEASE CALL: (907) 762-4633	
TIME/DATE OF TRANSMISSION:	BY: ALAN OR JC
CHUGACH FAX NO.: (907) 562-0027	MACHINE TYPE: DEX 740 OR CANON 850

3-3-93

CB 136
126From: Tom
Stewartson
KPEJ

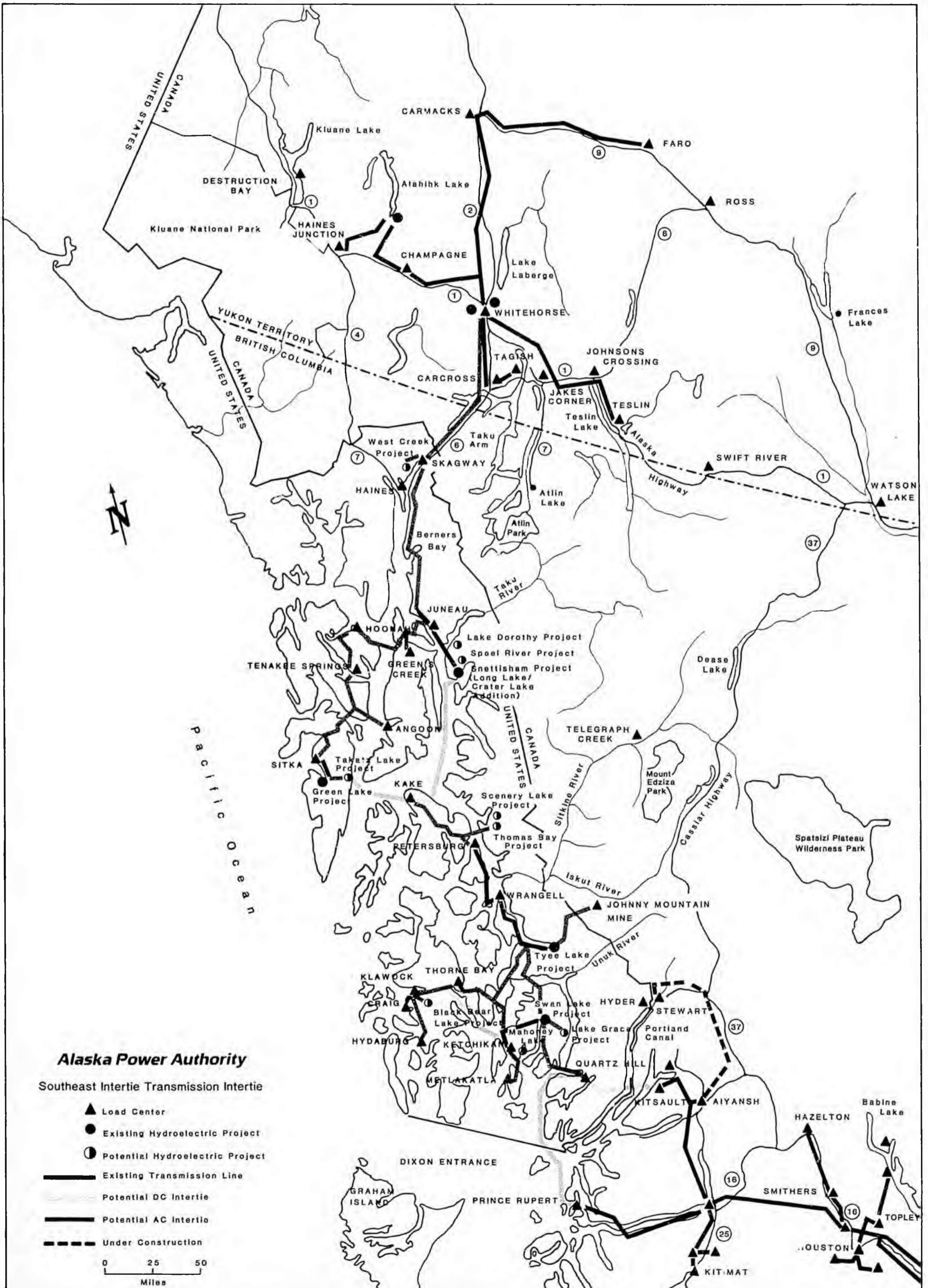
AEA INDICATES that it now wants to explore other potential SE energy projects. IN A MEETING LAST WEEK AT AUKA BAY, the utility MANAGERS IN SE met IN AEA CHAIRMAN BOB MARTIN'S OFFICES, ONE OF THEIR FINDINGS WAS UNANIMOUS support for the SWAN LAKE - LAKE TYEE intertie. THE JUNEAU BASED utilities DO NOT WANT OR ENCOURAGE AN intertie between TYEE AND JUNEAU. We believe the AEA quest will be fruitless at best. THE AEA has stated many times it supports SWAN-TYEE.

The financing of the Tyee-Swan intertie would be derived from increased kWh sales from previously unused "WATER OVER THE DAM AT TYEE" any shortfall would be funded either from grants, community involvement or both. The problem for the community IN the SWAN-TYEE intertie is that since the State owns the two power sources being interconnected - how can the community bond for something it will have no ownership over. Unlike the railbelt interties, which the connecting facilities are owned by NON-AEA utilities.

The wholesale power rate at THE 4 DAM POOL will certainly rise if we don't build the intertie AT

SWAN-Tyee. Building the intertie will create more Revenue to hold the rates. Currently Ketchikan and Kodiak subsidize the other Four Dam Pool members. Why would it be unreasonable, under the "Pool" concept for a short term subsidy for another Four Dam Pool member, if it is required.

Since the State owns the facilities, it is not unreasonable to ask for their assistance in maximizing the investment already in place. Especially when the project also provides for the long standing goals of infrastructure investments as outlined by AEA. If AEA wants the interties in the State to be built for Alaska's future, and the Governor is desirous of expanding the State infrastructure, this will be a wise and minimal investment with definable benefits.



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126

ALASKA ENERGY AUTHORITY
(All Dollars in Thousands)

SENT BY:

	6/30/93	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
AEA Revolving Fund Balance	\$141,800	\$161,926	\$173,344	\$176,428	\$121,470	\$82,033	\$88,164	\$92,385	\$94,160	\$96,090	\$98,120
Revenue											
Revolving Fund Investment Income		10,835	12,144	13,001	13,232	9,110	6,152	6,612	6,929	7,062	7,207
Collections on Existing Loans		2,413	2,413	2,271	2,244	2,234	2,181	2,130	1,856	1,937	1,931
Debt Service from 4-Dam pool		10,396	10,667	10,909	11,155	11,405	11,584	11,766	11,932	12,064	12,121
Appropriation - PCE		17,000	14,571	12,143	9,714	7,288	4,857	2,429	0	0	0
Appropriation - PCE Admin.		182	190	199	207	217	227	237	0	0	0
Total		40,626	39,986	36,522	36,553	30,252	25,001	23,174	20,817	21,063	21,259
Expenditure											
Railbelt Intertie Grant		1,000	9,000	14,400	65,600	0	0	0	0	0	0
Tyee-Swan Intertie Grant		500	500	1,200	3,600	29,200	0	0	0	0	0
Copper Valley Intertie Grant		500	500	1,200	3,600	21,700	0	0	0	0	0
Other Capital Projects/ Programs		0	0	0	0	0	0	0	0	0	0
PCE Outlay		\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000
Rural Technical Assistance		1,500	1,568	1,638	1,712	1,788	1,868	1,953	2,041	2,133	2,229
Total		20,500	28,568	35,438	91,512	69,689	18,868	18,953	19,041	19,133	19,229
Surplus (Shortage)		\$ 20,126	\$ 11,418	\$ 3,084	(\$4,959)	(\$39,437)	\$ 6,132	\$ 4,220	\$ 1,779	\$ 1,950	\$ 2,030

Revolving Fund Beginning Balance		Assumptions	
Railbelt Energy Fund	\$2,800	Annual Inflation Rate	4.5 %
Railbelt Intertie Reserve Fund	100,000	Return on AEA Fund	7.5 % of fund balance
Interest on Rblt Intertie Reserve	18,000	PCE State Appropriation	7 year ramp
Bradley State Fund Surplus	11,000	Railbelt Intertie Est. Total Cost	\$180,000
Additional State Contribution	10,000	Railbelt Intertie State Grant	\$90,000
Total	\$141,800	Tyee-Swan Est. Total Cost	\$60,000
		Tyee-Swan State Grant	\$35,000
		Copper Valley Est. Total Cost	\$60,000
		Copper Valley State Grant	\$27,500

Funds are available in the Revolving Fund for annual appropriation to AEA Administration

Projections exclude restricted revenues and associated expenditures.
(Example: revenues dedicated to project operations and maintenance.)

Case 8J

SPREAD SHEET #1

4-13-93 13:49 AK ENERGY AUTHORITY

1

ALASKA ENERGY AUTHORITY
(All Dollars in Thousands)

page 2 of 2
13-Apr-93

SENT BY:

	2004	2005	2006	2007	2008	2008	2010	2011	2012	2013	Total
AEA Revolving Fund Balance	\$100,162	\$102,077	\$103,894	\$105,711	\$107,589	\$108,543	\$111,570	\$113,669	\$115,839	\$118,082	
Revenue											
Revolving Fund Investment Income	7,359	7,812	7,658	7,782	7,928	8,068	8,216	8,368	8,525	8,688	\$172,198
Collections on Existing Loans	1,831	1,608	1,425	1,347	1,333	1,333	1,333	1,333	1,333	1,333	35,920
Debt Service from 4-Dam Pool	12,182	12,228	12,280	12,336	12,385	12,454	12,512	12,568	12,625	12,684	238,263
Appropriation - PCE	0	0	0	0	0	0	0	0	0	0	68,000
Appropriation - PCE Admin.	0	0	0	0	0	0	0	0	0	0	1,458
Total	21,872	21,349	21,363	21,475	21,656	21,856	22,061	22,269	22,483	22,706	515,839
Expenditure											
Railbelt Intertie Grant	0	0	0	0	0	0	0	0	0	0	90,000
Tyeo-Swan Intertie Grant	0	0	0	0	0	0	0	0	0	0	35,000
Copper Valley Intertie Grant	0	0	0	0	0	0	0	0	0	0	27,500
Other Capital Projects/ Programs	0	0	0	0	0	0	0	0	0	0	0
PCE Outlay	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	\$17,000	340,000
Rural Technical Assistance	2,329	2,434	2,544	2,658	2,778	2,903	3,034	3,170	3,313	3,462	47,057
Total	19,329	19,434	19,544	19,658	19,778	19,903	20,034	20,170	20,313	20,462	639,557
Surplus (Shortage)	\$ 2,043	\$ 1,915	\$ 1,817	\$ 1,817	\$ 1,878	\$ 1,953	\$ 2,027	\$ 2,099	\$ 2,170	\$ 2,243	(23,718)

: 4-13-93 : 13:49 : AK ENERGY AUTHORITY

Case 9J

: # 2

FISCAL NOTE

BILL NO. SB 106

STATE OF ALASKA
1993 LEGISLATIVE SESSION

Revision Date: _____
Title: Authorization of Anchorage-Kenai, Healy-Fairbanks, and
Tye-Swan Interties
Sponsor: Sharp et al.
Requestor: _____

Department Affected: Commerce and Economic Development
BRU: Alaska Energy Authority
Component: AEA Agency Operations
COMPONENT SERIAL NO. 7304010100

EXPENDITURES/REVENUES:

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	185.5	192.9	422.4	439.4	456.9	225.7
TRAVEL	25.0	26.0	54.1	56.2	58.5	30.4
CONTRACTUAL						143.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	111.3	115.7	253.4	263.6	274.1	135.4
TOTAL OPERATING	321.8	334.6	729.9	759.2	789.5	534.5
CAPITAL	678.2	865.4	2,870.1	34,040.8	18,610.5	

REVENUE						
FUND SOURCE:						

FUNDING:

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						534.5
1006 GF/MHTIA						
OTHER	1,000.0	1,200.0	3,600.0	34,800.0	19,400.0	
TOTAL						

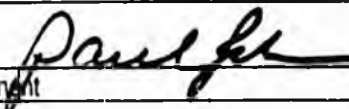
POSITIONS:

FULL-TIME	2	2	4	4	4	2
PART-TIME	1	1	2	2	2	1
TEMPORARY						

Estimate of current year (FY 93) impact: 0

ANALYSIS: (Attach a separate page if necessary.)
See Attached Page

Prepared by: Richard Emerman Phone: 561-7877
Division: Alaska Energy Authority Date: 2/19/93

Approved by Commissioner: Paul Fuhs 
Agency: Commerce and Economic Development Date: _____

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FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. SB 106

ANALYSIS: (continued)

The fiscal note assumes the following:

1. Anchorage-Kenai and Healy-Fairbanks interties, though authorized, are not built as a result of this bill alone because an appropriation would also be needed.
2. Tyee-Swan is built as a result of this bill because no appropriation is needed. Revenue bonds are issued for the full construction cost.
3. The fiscal note shows a schedule of outlays for construction of Tyee-Swan using bond proceeds, but does not show the payment of debt service on these bonds. No attempt has been made to account for financing costs and interest during construction, which would add to the total bond size. Debt service on the bonds would be expected at about \$6 million per year, assuming a \$70 million bond issue for 30 years issued at a tax-exempt rate of 7.5 percent. This \$6 million per year would come from Four Dam Pool power sales.
4. The Energy Authority is expected to build the Tyee-Swan intertie rather than contract with a local utility to build it. Additional positions are shown consistent with Energy Authority construction of a major project. A project manager, half-time environmental and right-of-way position, and administrative assistant are shown for the first two years. To these are added two full-time engineers and a half-time accountant during years 3 through 5. FY 99 is projected as the first full year of project operation. Overhead is shown at 60 percent of personal services costs.
5. Program receipts in FY 99 are assumed to come from purchases of power over the intertie to pay for operations and maintenance, and Energy Authority costs during the initial year of project operation.

SENATE COMMITTEE REPORT
FIRST COMMITTEE OF REFERRAL

DATE: 2/10/93

FURTHER: FINANCE

Date of 5-Day Notice: 2/11/93
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 2-16-93

L&C Committee considered SB 106

Authorizing power transmission interties

"An Act authorizing power transmission interties between Anchorage and the Kenai Peninsula, between Healy and Fairbanks, and between the Swan Lake and Tyee Lake hydroelectric projects, and approving the design and construction costs of the interties; and providing for an effective date."

and recommends: and report it back as follows

replace with _____ CS _____

- same title
- new title
- technical title change (HB only)

attaches amendment(s)

adopts _____ Letter of Intent

further referral to the _____

- do pass
- do not pass
- no recommendation
- individual recommendations

NO FOR

*Appropriations Bill to follow.
John Lundy
Committee Aide*

FISCAL NOTE INFORMATION

Department	Date	Zero	Fiscal

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

Governor's Bill with Previous Fiscal Notes (enter information above)

DO PASS:

OTHER RECOMMENDATIONS:

John Lundy No Recommendation
True Lance - No Rec
J. Sals No Rec.

Tim Kelly - Do Pass

Chair: Signature and Recommendation

SB

111

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 2/11/93

FURTHER:

Date of 5-Day Notice: 2-25-93
 (in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: _____

Died in SFC 1994
 The Finance Committee considered SB 111

Establishing the defined contribution retirement plan for public employees; requiring the preparation of certain actuarial valuations and actuarial and financial experience analyses of the teachers' retirement system; requiring the teachers' retirement system and the public employees' retirement system to be fully funded before granting a post retirement pension adjustment; efd.

and recommends:

- replace with _____ CS _____ (FINANCE)
- or adopt previous _____ CS _____
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

- do pass
- do not pass
- no recommendation
- individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

DO PASS:

OTHER RECOMMENDATIONS:

1. _____
 Co-Chair: Signature/Recommendation

2. _____
 Co-Chair: Signature/Recommendation

ALASKA STATE LEGISLATURE
SENATE BILL NO. ///

HISTORY IN THE SENATE

HISTORY IN THE HOUSE

1993

19

Read first time and referred to:

Read first time and referred to:

2/11

FIN

____ RPT(____) CS ____ DP ____ NR ____ DNP ____ AM
 ____ New Title ____ Same Title ____ Previous FN
 ____ FN ____ OFN To _____

____ RPT CS() ____ New Title
 ____ DP ____ DNP ____ NR ____ AM
 ____ FN ____ OFN ____ Previous FN

____ RPT(____) CS ____ DP ____ NR ____ DNP ____ AM
 ____ New Title ____ Same Title ____ Previous FN
 ____ FN ____ OFN To _____

____ RPT CS() ____ New Title
 ____ DP ____ DNP ____ NR ____ AM
 ____ FN ____ OFN ____ Previous FN

____ RPT(____) CS ____ DP ____ NR ____ DNP ____ AM
 ____ New Title ____ Same Title ____ Previous FN
 ____ FN ____ OFN To _____

____ RPT CS() ____ New Title
 ____ DP ____ DNP ____ NR ____ AM
 ____ FN ____ OFN ____ Previous FN

____ Rules Calendar(____) CS ____ AM ____ Other
 ____ New Title ____ Same Title ____ Previous FN
 ____ FN ____ OFN

Read second time
 CS() Adopted

Read second time

Amended

____ CS Adopted (____) ____ New Title
 ____ Amended ____ Advanced

Advanced

Read third time

Read third time

____ Letter of Intent adopted
 ____ Return to second for specific amendment

Return to second for specific amendment

PASSED EFD Same ____ or
 Yeas Yeas
 Nays Nays
 Excused Excused
 Absent Absent

PASSED EFD Same ____ or
 Yeas Yeas
 Nays Nays
 Excused Excused
 Absent Absent

Reconsideration
 Reconsideration not taken up

____ Intent adopted

Reconsideration
 Reconsideration not taken up

PASSED EFD Same ____ or
 Yeas Yeas
 Nays Nays
 Excused Excused
 Absent Absent

PASSED ON RECON. EFD Same ____ or
 Yeas Yeas
 Nays Nays
 Excused Excused
 Absent Absent

Reported correctly engrossed
 Signed by President, to House

Reported correctly engrossed, signed by the Speaker
 and returned to the Senate

 Secretary of the Senate

 Chief Clerk of the House

SENATE-HOUSE HISTORY Continued

19

Received from the House
Version: _____
Concur in House amendment
Y ___ N ___ E ___ A ___
____ Efd same or Y ___ N ___ E ___ A ___

Failed to concur in House amendment, ask House recede
Y ___ N ___ E ___ A ___

House failed to / receded from amendment
Y ___ N ___ E ___ A ___

CC appointed by Senate _____ Chair

CC appointed by House _____ Chair

(S) Granted Limited Powers of Free Conference

(H) Granted Limited Powers of Free Conference

19

(S) Adopted CC Rpt _____
Y ___ N ___ E ___ A ___
____ Efd same or Y ___ N ___ E ___ A ___

(H) Adopted CC Rpt _____
Y ___ N ___ E ___ A ___
____ Efd same or Y ___ N ___ E ___ A ___

To enrolling
Received from enrolling
Sent to Governor

_____ By Governor

Chapter Number _____

Filed with Lieutenant Governor

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. SB 111

Revision Date: _____ Dept. Affected: Administration
 Title: An Act establishing the defined contribution plan for BRU: Retirement and Benefits
public employees; requiring the preparation of certain actuarial Component: Retirement and Benefits
valuations.....
 Sponsor: Senate Finance Committee
 Requestor: _____ COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	1091.6	1091.6	1091.6	1091.6	1091.6	1091.6
TRAVEL	12.0	6.0	6.0	6.0	6.0	6.0
CONTRACTUAL	1031.3	779.8	1000.5	1377.6	1394.2	1561.7
SUPPLIES	7.2	6.0	6.0	6.0	6.0	6.0
EQUIPMENT	297.4	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	2439.2	1883.4	2104.1	2481.2	2497.8	2665.3
CAPITAL	0	0	0	0	0	0
REVENUE FUND SOURCE:	0	0	0	0	0	0

FUNDING:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	2439.2	1883.4	2104.1	2481.2	2497.8	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	2665.3
TOTAL	2439.2	1883.4	2104.1	2481.2	2497.8	2665.3

POSITIONS

FULL-TIME	24	24	24	24	24	24
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact: \$ zero

ANALYSIS: (attach a separate page if necessary.) Detailed analysis for administrative costs above is found on pages 2-4 attached. An analysis of projected PERS and TRS systemwide costs is found on pages 5-6.

Prepared By: Robert F. Stalnaker *Robert F. Stalnaker* Phone: 465-4470
 Division: Retirement and Benefits Date: March 30, 1993
 Approved by Commissioner: Nancy Bear Usery *Nancy Bear Usery* Date: 3/31/93
 Agency: Department of Administration

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Senate Bill 111
Fiscal Note Analysis
Prepared by Division of Retirement and Benefits
Department of Administration
March 30, 1993

Analysis: This bill proposes a new retirement system for public employees and teachers. The existing Public Employees' (PERS) and Teachers' (TRS) Retirement Systems would be closed to new entrants. All state employees, and all public employees and teachers of participating employers, first hired on or after July 1, 1993 would participate in the new retirement system: the Defined Contribution Retirement Plan (DCRP). The DCRP establishes defined contributions to be paid by both the employer and the employee.

This fiscal note represents the administrative costs associated with establishing a new retirement plan and is based on the following assumptions:

- * The current PERS Board will oversee the DCRP
 - * The administration of the DCRP will be in the Division of Retirement & Benefits
 - * The proposed level of staffing is needed to administer the DCRP
 - * The current level of PERS and TRS staffing will continue in the short run and is estimated to begin decreasing after approximately six years
 - * The administration of the DCRP is subject to the Alaska procurement code and personnel rules
 - * Participant directed recordkeeping will be maintained by a contracting recordkeeper
 - * There will be an in-house data processing system to collect contributions, transmit contributions to recordkeepers and audit accounts
 - * Current employers in the PERS and TRS will also participate in the DCRP
 - * DCRP membership will grow based on the turnover rates of the PERS and TRS and assuming a 3% per year population growth rate for PERS and a 1% rate for TRS
 - * The effective date of commencement is July 1, 1993
 - * Approximately 20% of the current PERS and TRS members will transfer their contributions to the DCRP within the first year
 - * The employer rate will be 9.65%
 - * The employee rate will be 6.75%
 - * The current PERS and TRS system assumptions will continue over the next 25 years
- * A start up time of at least five years will be required. Contributions in the first few years will be insufficient to cover the administrative charges. During start up the state would pay the administrative costs from the general fund. Thereafter, the DCRP would be self sufficient and able to pay its own operating expenses.

Senate Bill 111
 Fiscal Note Analysis
 Prepared by Division of Retirement and Benefits
 Department of Administration
 March 30, 1993

The total estimated administrative cost to the division by fiscal year is as follows:

	<u>FY 94</u>	<u>FY 95</u>
PERSONAL SERVICES		
1 Retirement & Benefits Manager	66.7	
3 Retirement Specialist III	175.5	
2 Retirement Specialist I/II	102.6	
2 Retirement Technician I/II	84.0	
1 Accountant IV	66.7	
1 Accountant III	58.5	
1 Accounting Technician III	51.3	
2 Accounting Technician II	45.3	
2 Accounting Clerks III	75.6	
1 Accounting Clerk II	34.6	
1 Clerk IV	37.8	
2 Clerks III	67.2	
1 Micrographics Equipment Operator	42.0	
1 Programmer/Analyst V	71.4	
1 Programmer/Analyst III/IV	63.6	
1 Programmer/Analyst I/II	<u>48.8</u>	
Total Personal Services Cost.....	\$1091.6	1091.6
TRAVEL		
Traveling to various locations throughout the state to counsel members	6.0	6.0
Additional Board travel to establish DCRP	<u>6.0</u>	<u>0.0</u>
Total Travel Costs.....	12.0	6.0
CONTRACTUAL		
Computer system design	500.0	0
Actuarial consulting, independent audit, recordkeeping, and investment management	477.4	726.2
Computer services	28.8	28.8
Printing, postage	15.0	15.0
Telephone service for 24 permanent phones	4.8	4.8
Long distance call expense	<u>5.0</u>	<u>5.0</u>
Total Contractual Costs.....	1031.3	779.8

Senate Bill 111
 Fiscal Note Analysis
 Prepared by Division of Retirement and Benefits
 Department of Administration
 March 30, 1993

	<u>FY 94</u>	<u>FY 95</u>
SUPPLIES		
Office supplies	7.2	6.0
EQUIPMENT		
24 Work stations	72.0	
30 Chairs	12.0	
24 Personal computers	132.0	
Other office equipment (calculators, etc.)	12.0	
24 Phones (1100/instrument)	26.4	
Imaging equipment	25.0	
1 Computer Output Printer	<u>18.0</u>	
Total Equipment Cost	<u>297.4</u>	<u>0.0</u>
TOTAL Cost.....	<u>\$2439.2</u>	<u>\$1883.4</u>

Senate Bill 111
Retirement System Financial Impact
Prepared by Division of Retirement & Benefits
Department of Administration
March 30, 1993

Establishing a new retirement system will have an impact on the future employer contribution rates of the PERS and TRS. The affect of closing the PERS and TRS to new entrants will be an increase in the employer contribution rates over the long term as the PERS and TRS covered salaries decline. The overall contributions will, of course, decrease as the amount of contributions to the DCRP increase.

The chart on the next page shows, in one column, the anticipated amount of employer contributions to the PERS and TRS over the next 25 years assuming no changes to the retirement systems; and, in the second column, the amount of anticipated employer contributions to the DCRP and to the PERS and TRS under SB 111 with the PERS and TRS systems closed to new entrants. The third column shows the net difference in the estimated amount of employer contributions on a systemwide basis with the passage of SB 111.

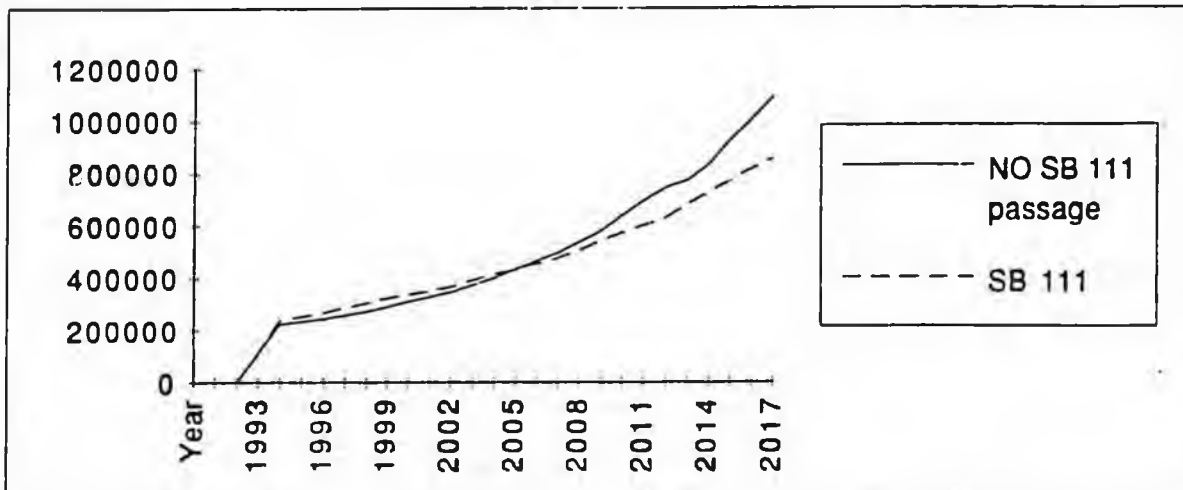
The initial affect to the new system will be to increase combined net employer contributions for the first 14 years; thereafter, the combined contributions will decline and the savings should grow yearly.

The graph at the bottom of page 6 displays the affect of SB 111 when compared to the current actuarial projections of contributions to the PERS and TRS with no changes to those systems.

The figures were produced by the PERS and TRS actuary assuming growth rates of the DCRP equal to those of the PERS (3%) and TRS (1%).

Senate Bill 111
 Retirement System Financial Impact
 Prepared by Division of Retirement & Benefits
 Department of Administration
 March 30, 1993

Calendar Year	NO SB 111 passage Projected PERS & TRS Future Employer cost in (000's)	SB 111 DB & DC in (000's)	Difference Between Employer cost with SB 111 and without in (000's)
1993	\$106,323	\$113,792	\$7,469
1994	\$223,117	\$240,056	\$16,939
1995	\$233,461	\$251,735	\$18,274
1996	\$244,149	\$267,755	\$23,606
1997	\$255,880	\$286,148	\$30,268
1998	\$271,857	\$304,880	\$33,023
1999	\$289,554	\$322,701	\$33,147
2000	\$309,765	\$337,253	\$27,488
2001	\$329,559	\$352,211	\$22,652
2002	\$348,212	\$367,794	\$19,582
2003	\$374,817	\$391,647	\$16,830
2004	\$400,591	\$416,768	\$16,177
2005	\$433,476	\$435,161	\$1,685
2006	\$465,500	\$454,659	(\$10,841)
2007	\$495,637	\$474,425	(\$21,212)
2008	\$536,973	\$507,017	(\$29,956)
2009	\$578,576	\$542,645	(\$35,931)
2010	\$638,094	\$572,839	(\$65,255)
2011	\$692,767	\$601,832	(\$90,935)
2012	\$743,883	\$630,177	(\$113,706)
2013	\$771,447	\$677,573	(\$93,874)
2014	\$832,686	\$725,735	(\$106,951)
2015	\$924,351	\$771,541	(\$152,810)
2016	\$1,005,367	\$815,711	(\$189,656)
2017	\$1,093,134	\$855,448	(\$237,686)



FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. CS SB 111 (fin)

Revision Date: _____ Dept. Affected: Administration
 Title: An Act establishing the defined contribution plan for BRU: Retirement and Benefits
public employees; requiring the preparation of certain actuarial Component: Retirement and Benefits
valuations.....
 Sponsor: Senate Finance Committee
 Requestor: _____ COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99
PERSONAL SERVICES	349.6	811.1	811.1	811.1	811.1	811.1
TRAVEL	12.0	6.0	6.0	6.0	6.0	6.0
CONTRACTUAL	580.4	323.1	597.9	844.3	1067.3	1275.8
SUPPLIES	7.2	6.0	6.0	6.0	6.0	6.0
EQUIPMENT	231.2	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	1180.4	1146.2	1421.0	1667.4	1890.4	2098.9

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE FUND SOURCE:	0	0	0	0	0	0
----------------------	---	---	---	---	---	---

FUNDING:

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	1180.4	1146.2	1421.0	1667.4	1890.4	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTLA	0	0	0	0	0	0
Other	0	0	0	0	0	2098.9
TOTAL	1180.4	1146.2	1421.0	1667.4	1890.4	2098.9

POSITIONS

FULL-TIME	8	17	17	17	17	17
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact: \$ zero

ANALYSIS: (attach a separate page if necessary.) Detailed analysis for administrative costs above is found on pages 2-4 attached. An analysis of projected PERS and TRS systemwide costs is found on pages 5-6.

Prepared By: Robert F. Stalnaker *Robert F. Stalnaker* Phone: 465-4470
 Division: Retirement and Benefits Date: April 2, 1993

Approved by Commissioner: Nancy Bear Usura Date: _____
 Agency: Department of Administration

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Finance Committee Substitute for Senate Bill 111
Fiscal Note Analysis
Prepared by Division of Retirement and Benefits
Department of Administration
April 2, 1993

Analysis: This bill proposes a new retirement system for public employees and teachers. The existing Public Employees' (PERS) and Teachers' (TRS) Retirement Systems would be closed to new entrants. All teachers of participating employers first hired on or after July 1, 1994 would participate in the new retirement system: the Defined Contribution Plan (DCRP). All state employees, and all public employees of participating employers, first hired on or after January 1, 1995 would participate in DCRP. The DCRP establishes defined contributions to be paid by both the employer and the employee.

This fiscal note represents the administrative costs associated with establishing a new retirement plan and is based on the following assumptions:

- * The current PERS Board will oversee the DCRP
 - * The administration of the DCRP will be in the Division of Retirement & Benefits
 - * The proposed level of staffing is needed to administer the DCRP
 - * The current level of PERS and TRS staffing will continue in the short run and is estimated to begin decreasing after approximately six years
 - * The administration of the DCRP is subject to the Alaska procurement code and personnel rules
 - * Participant directed record keeping will be maintained by a contracting record keeper
 - * There will be an in-house data processing system to collect contributions, transmit contributions to record keepers and audit accounts
 - * Current employers in the PERS and TRS will also participate in the DCRP
 - * DCRP membership will grow based on the turnover rates of the PERS and TRS and assuming a 3% per year population growth rate for PERS and a 1% rate for TRS
 - * The effective date of commencement is July 1, 1994 for teachers and January 1, 1995 for state and political subdivision employees
 - * Current members of the PERS and TRS members cannot join the DCRP
 - * The employer rate will be 5.0%
 - * The employee rate will be 4.5%
 - * The current PERS and TRS system assumptions will continue over the next 25 years
 - * The fiscal note assumes a participation level which will increase over time; any additional staffing needs will be addressed in the future.
- * A start up time of at least five years will be required. Contributions in the first few years will be insufficient to cover the administrative charges. During start up the state would pay the administrative costs from the general fund. Thereafter, the DCRP would be self sufficient and able to pay its own operating expenses.

Finance Committee Substitute for Senate Bill 111
 Fiscal Note Analysis
 Prepared by Division of Retirement and Benefits
 Department of Administration
 April 2, 1993

The total estimated administrative cost to the division by fiscal year is as follows:

	<u>FY 94</u>	<u>FY 95</u>
PERSONAL SERVICES		
1 Retirement & Benefits Manager	66.7	66.7
1 Retirement Specialist III	58.5	58.5
1 Retirement Specialist I/II		51.3
1 Retirement Technician I/II		42.0
1 Accountant III	43.9	58.5
1 Accounting Technician III		51.3
2 Accounting Technician II	22.6	90.6
2 Accounting Clerks III		75.6
1 Accounting Clerk II		34.6
1 Clerk IV		37.8
2 Clerks III	33.6	67.2
1 Micrographics Equipment Operator	21.0	42.0
1 Programmer/Analyst V	55.6	71.4
1 Programmer/Analyst III/IV	<u>47.7</u>	<u>63.6</u>
Total Personal Services Cost.....	\$349.6	\$811.1
TRAVEL		
Traveling to various locations throughout the state to counsel members	6.0	6.0
Additional Board travel to establish DCRP	<u>6.0</u>	<u>0.0</u>
Total Travel Costs.....	\$12.0	\$6.0
CONTRACTUAL		
Computer system design	400.0	0
Actuarial consulting, independent audit, record keeping, and investment management	125.0	270.9
Computer services	28.8	28.8
Printing, postage	20.0	15.0
Telephone service for phones	1.6	3.4
Long distance call expense	<u>5.0</u>	<u>5.0</u>
Total Contractual Costs.....	\$580.4	\$323.1

Finance Committee Substitute for Senate Bill 111
 Fiscal Note Analysis
 Prepared by Division of Retirement and Benefits
 Department of Administration
 April 2, 1993

	<u>FY 94</u>	<u>FY 95</u>
SUPPLIES		
Office supplies	\$7.2	\$6.0
EQUIPMENT		
17 Work stations	52.0	
30 Chairs	12.0	
17 Personal computers	93.5	
Other office equipment (calculators, etc.)	12.0	
17 Phones (1100/instrument)	18.7	
Imaging equipment	25.0	
1 Computer Output Printer	<u>18.0</u>	
Total Equipment Cost	<u>\$231.2</u>	<u>0.0</u>
TOTAL Cost.....	<u>\$1180.4</u>	<u>\$1146.2</u>

Finance Committee Substitute for Senate Bill 111
Retirement System Financial Impact
Prepared by Division of Retirement & Benefits
Department of Administration
April 2, 1993

Establishing a new retirement system will have an impact on the future employer contribution rates of the PERS and TRS. The affect of closing the PERS and TRS to new entrants will be an increase in the PERS and TRS emp'oyer contribution rates over the long term as the PERS and TRS covered salaries decline. The overall state contributions, however, will decrease as the amount of contributions to the DCRP increase.

The chart on the next page shows, in one column, the anticipated amount of employer contributions to the PERS and TRS over the next 25 years assuming no changes to the retirement systems; and, in the second column, the amount of anticipated employer contributions to the DCRP and to the PERS and TRS under SB 111 with the PERS and TRS systems closed to new entrants. The third column shows the net difference in the estimated amount of employer contributions on a system wide basis with the passage of SB 111.

The initial effect of the new system will be to increase combined net employer contributions for the first 2 years; thereafter, the combined contributions will decline and the savings should grow yearly.

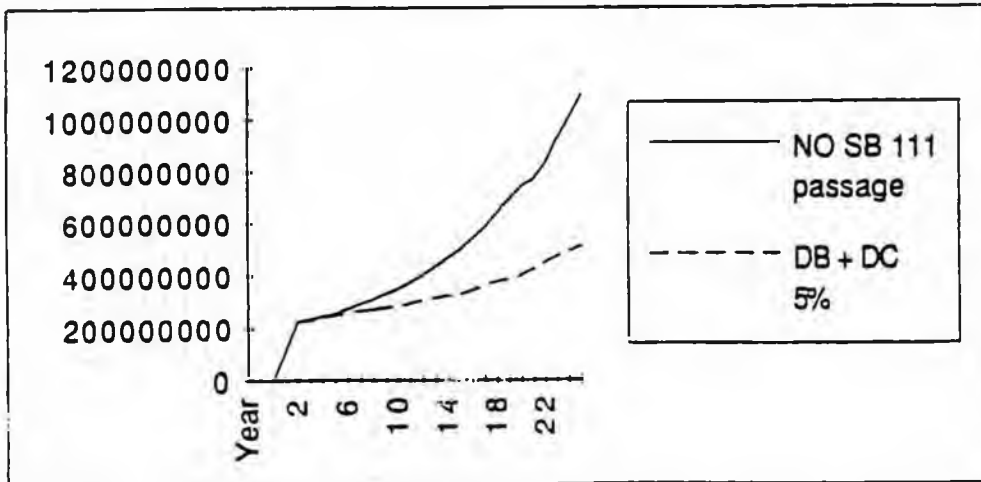
The graph at the bottom of page 6 displays the affect of SB 111 when compared to the current actuarial projections of contributions to the PERS and TRS with no changes to those systems.

The figures were produced by the PERS and TRS actuary assuming growth rates of the DCRP equal to those of the PERS (3%) and TRS (1%).

The State of Alaska should experience approximately 40% of the net effect due to it's number of employees. As an example, in year two, the chart shows an increase in net cost by \$795,067. The state's share of that increase would be estimated to be \$318,027. In year five, the chart shows an estimated savings to the systems' employers of approximately \$8,903,311. The state's share of that savings is estimated to be \$3,561,324.

Finance Committee Substitute for Senate Bill 111
 Retirement System Financial Impact
 Prepared by Division of Retirement & Benefits
 Department of Administration
 April 2, 1993

Fiscal Year	NO SB 111 passage Projected PERS & TRS Future Employer cost	DB + DC 5% at .05 Emp Cost	Difference Between Employer cost with SB 111 and without
1	\$106,323,000	\$109,482,661	\$3,159,661
2	\$223,117,000	\$223,912,067	\$795,067
3	\$233,461,000	\$228,093,725	(\$5,367,275)
4	\$244,149,000	\$236,531,093	(\$7,617,907)
5	\$255,880,000	\$246,976,689	(\$8,903,311)
6	\$271,857,000	\$256,639,021	(\$15,217,979)
7	\$289,554,000	\$265,389,870	(\$24,164,130)
8	\$309,765,000	\$270,872,202	(\$38,892,798)
9	\$329,559,000	\$276,760,052	(\$52,798,948)
10	\$348,212,000	\$283,273,383	(\$64,938,617)
11	\$374,817,000	\$294,805,088	(\$80,011,912)
12	\$400,591,000	\$307,605,275	(\$92,985,725)
13	\$433,476,000	\$313,676,979	(\$119,799,021)
14	\$465,500,000	\$320,854,166	(\$144,645,834)
15	\$495,637,000	\$328,298,870	(\$167,338,130)
16	\$536,973,000	\$344,001,492	(\$192,971,508)
17	\$578,576,000	\$362,739,632	(\$215,836,368)
18	\$638,094,000	\$376,043,772	(\$262,050,228)
19	\$692,767,000	\$388,146,912	(\$304,620,088)
20	\$743,883,000	\$399,602,052	(\$344,280,948)
21	\$771,447,000	\$423,675,772	(\$347,771,228)
22	\$832,686,000	\$448,515,974	(\$384,170,026)
23	\$924,351,000	\$470,999,694	(\$453,351,306)
24	\$1,075,367,000	\$491,847,415	(\$513,519,585)
25	\$1,093,134,000	\$508,262,617	(\$584,871,383)





NEA-ALASKA

Affiliated with the National Education Association

NEA-ALASKA POSITION PAPER SB 111

SB 111: *An Act establishing the defined contribution retirement plan for public employees; requiring the preparation of certain actuarial valuations and actuarial and financial experience analyses of the teachers' retirement system; requiring the teachers' retirement system and the public employees' retirement system to be fully funded before granting a post retirement pension adjustment; and providing for an effective date.*

NEA-Alaska opposes this legislation as a regressive approach toward caring for those educational employees who serve our public education institutions. The current defined benefit plan ties a promised benefit to the earnings of the employee, factors in length of service and for vested employees pays a percentage of the employees final average salary. A defined contribution plan pays benefits at retirement based on money accumulated in the employee's retirement account. Changing from a defined benefit retirement program to a defined contribution retirement plan would create a greater burden on educational employees to manage long-term personal financial resources because defined benefit plans are not designed to specifically provide stated retirement benefit levels.

A defined benefit plan provides the ability for the employer to design plans that attempt to satisfy stated retirement income objectives for vested employees. A defined contribution plan outlined in SB 111 will take employer and employee contributions and for all practical purposes, allocate these contributions to individual accounts. Under this approach there is no way of knowing in advance the exact amount of assets that will be in the employee's account at retirement. The size of the account will be affected by the amounts contributed, the impact of investment gains or losses and the value of reallocated benefit forfeitures.

NEA-Alaska believes that defined contribution plans should be used to supplement an existing defined benefit plan. We would support such a program.

This bill, while based on good intentions, only sets up a second bureaucracy to manage another benefit plan which will likely offer no better means for providing and managing for retirement needs of educational employees than the current system. If the intent of SB 111 is to trim or redirect the state's future retirement obligation, it should not be accomplished on the backs of those who will begin work next year. There are better ways to utilize retirement options to affect savings.

Generally the reasons many organizations consider changing from defined benefit packages to defined contribution retirement benefits have to do with fear of large unfunded liabilities. By limiting the employers' maximum contribution, such organizations believe they can control and contain costs. A defined benefit plan can minimize unknown cost commitment by projecting future interest earnings, mortality rates, personnel turnover and salary increases thus, they attempt to establish a reasonable level funding pattern. Moreover the retirement system boards and managers should be evaluating the defined benefit plan's assets and liabilities at least annually allowing for contribution adjustments if needed.

Understandably, a shift to a defined contribution plan is very unattractive because it erodes benefits. The courts have considered retirees' defined benefits, under some circumstances, as vested benefits that cannot be taken away. Current public and educational employees have been paying into the system with the expectation that they will have a guaranteed level of benefits upon retirement. Creation of a two tier system, NEA-Alaska believes, will be confusing and divisive because employees would continually compare the benefits associated with the two plans.

We are concerned about the affect this change will have on the overall stability and soundness of the current defined benefit plan. SB 111 provides that beginning in the 93-94 school year new hires will enter the defined contribution plan. What will the actuarial impact be in the short and long term to the current system? Will employees in the current plan be forced to increase their contribution in the system in order to control an increase in unfunded liability to the defined benefit plan?

It appears that investments made under the defined contribution plan will be made by a company. We feel that under the plan it will be too easy for the employer to not be concerned about future impact poor investments will have. Risk to the employer is minimized since the employer is required to only pay an established amount (9.65%) on a regular basis. In our defined benefit plan the risk is shared because the goal of the plan is to pay for promised benefits.

We urge the Committee to vote against SB 111. Don't make Alaska the first state to require a defined contribution plan for employees.

3/5/93

A M E N D M E N T

OFFERED IN THE SENATE
TO: SB 111

BY SENATOR RIEGER

Page 4, line 8:

Delete "Inclusion"

Insert "For state employees and for employees of political subdivisions and public organizations that have chosen to participate in the plan, inclusion"

Page 13, line 11, after ".":

Insert "A teacher or member first contracting for service on or after July 1, 1993, with an employer that has elected not to participate in the defined contribution retirement plan under AS 39.38 is subject to this chapter unless the teacher has elected to participate in the defined contribution retirement plan or the optional university retirement program."

Page 13, line 31, through page 14, line 1:

Delete "and before July 1, 1993,"

Page 14, line 21:

Delete "and"

Page 14, line 22, after "plan":

Insert ", or a person first hired on or after July 1, 1993, who is an employee of an employer that has chosen to continue participation in the system and who is otherwise eligible to participate in the system, and is, in either case"

Page 16, line 25, after "1993,":

Insert "or who was hired on or after that date and who is employed by a political

subdivision that has chosen to participate in the system"

Page 16, line 29, after "1993,":

Insert "and for an employee hired after that date who is employed by a political subdivision that has chosen to participate in the svstem."

Page 17, line 24, through page 18, line 9:

Delete all material.

Renumber the following bill sections accordingly.

Page 18, line 13, after "1993,":

Insert "or who was first hired after that date by a political subdivision that has chosen to participate in the system."

Page 18, line 13, after "is":

Insert ", in either case."

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P. O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347

MEMORANDUM

TO: Members of the Legislative Budget and Audit Committee

FROM: Randy S. Welker *Randy*
Legislative Auditor

DATE: February 12, 1993

RE: Teachers' Retirement Fund Unfunded Liabilities

RECEIVED FEB 23 1993

At your request, this memo discusses the main reasons for increases in the Teachers' Retirement Fund (the Fund) unfunded liabilities.

Unfunded liabilities represent the excess of the accrued pension obligation over the assets available to pay for those accrued obligations. Unfunded liabilities and funding ratio of the Fund for the past five fiscal years have been reported as:

	<u>Unfunded Liability</u>	<u>Funding Ratio</u>
June 30, 1987	\$ (14.1) million	101.2%
June 30, 1988	15.9 million	98.8%
June 30, 1989	77.3 million	95.0%
June 30, 1990	232.8 million	87.7%
June 30, 1991	295.9 million	85.7%

As described in greater detail in our audit report, *Department of Administration, Teachers' Retirement System, Review of Selected Funding Issues* dated January 11, 1993, there are various factors which affect unfunded liabilities, most all of which are impacted by actuarial assumptions. The major factors are:

- Assumed and actual investment returns
- Assumed and actual salary increases
- Assumed and actual employer contributions
- Unfunded benefit increases
- Changes in actuarial assumptions

According to the State's actuary, the increase in unfunded liabilities from \$77 million as of June 30, 1989 to \$233 million at June 30, 1990 is mainly attributed to the statutory changes in the teachers' retirement system made by Chapter 97, SLA 1990 when a two-tiered benefit plan was established. A significant change was made by the introduction of the automatic post retirement pension adjustment (PRPA) feature in the pension plan. Alaska Statute 14.25.143 was repealed and reenacted to read, in part:

- (a) *Once each year, the administrator shall increase benefit payments to eligible disabled members, to persons age 60 or older receiving benefits under this system in the preceding calendar year, and to persons who have received benefits under this system for at least eight years who are not otherwise eligible for an increase under this section.*
- (b) *The increase in benefit payments applies to total benefit payments except for the cost-of-living allowance under AS 14.25.142. The amount of the increase is a percentage of the current benefit equal to*
 - (1) *the lesser of 75 percent of the increase in the cost of living in the preceding calendar year or nine percent, for recipients who on July 1 are at least 65 years old and for members receiving disability benefits; and*
 - (2) *the lesser of 50 percent of the increase in the cost of living in the preceding calendar year or six percent, for recipients who on July 1 are at least 60 but less than 65 years old or for recipients who on July 1 are less than 60 years old but who have received benefits from the system for at least eight years.*

Another, although less significant, change was made in the multiplier used to calculate the amount of retirement benefit based on years of service.

The State's actuary has estimated that the fiscal impact on the Fund's unfunded liabilities as a result of the statutory amendments to the benefit levels was approximately \$260 million. However, it is estimated that over the next 20 years the new legislation enacted in 1990 would be cost neutral as the impact of the reduced cost of benefits for tier 2 employees are recognized. According to the actuary, this amount represents the past service cost of increased benefits, mainly attributable to the PRPA, for which funding had not been made up to the date of the passage of the PRPA. The normal cost for current and active employees for future PRPA is "pre-funded" through the annual calculation of the employers contribution rate. Offsetting the increase in unfunded liabilities due to the past service cost of the increased benefits were actuarial gains on other assumptions, resulting in a net increase in unfunded liabilities between 1989 and 1990 of approximately \$156 million. The actuary

has indicated that the impact of actuarial gains and losses from individual actuarial assumptions is not readily available and would require extensive analysis.

Under the retirement plan provisions, the \$260 million increase in unfunded liabilities resulting from the PRPA and the change in the benefit multiplier is amortized over 25 years, or approximately \$10.5 million per year. Under the past service cost amortization schedule, this would indicate that of the \$296 million in unfunded liabilities at June 30, 1991, approximately \$250 million is due to the unamortized portion of the past service costs attributed to the changes made by Chapter 27, SLA 1990. The remaining \$46 million (2.3% of fund balance) of unfunded liabilities results from actuarial assumptions not having been precisely achieved.

**1993 LEGISLATION
POSITION PAPER
DEPARTMENT OF ADMINISTRATION**

Bill No.: SB 111

Bill Title: "An Act establishing the defined contribution retirement plan for public employees; requiring the preparation of certain actuarial valuations and actuarial and financial experience analyses of the teachers' retirement system . . ."

Senate Bill 111 proposes to add a third tier to the State's retirement systems by establishing a defined contribution plan. Presently, the retirement system administers a defined benefit plan, which pays a predetermined, guaranteed level of benefits to plan participants upon retirement. The present system has different benefit plans for employees hired before and after July 1986. The defined contribution plan proposed in SB 111 would instead guarantee the employer's level of contributions to the plan, and the plan's benefits would depend upon the value of an individual employee's account at retirement. Under the bill, participation in the defined contribution plan would be mandatory for new State employees. Current employees could elect either to continue under the current plan or convert to the new plan.

Although we are continuing to analyze the specific ramifications of moving to a defined contribution plan, the department supports the defined contribution concept. It would stabilize the State's pension costs, which now fluctuate based on actuarially determined needs to fund the guaranteed benefits. In addition, a defined contribution plan would not have the residual liabilities associated with plans which guarantee a benefit level. It would also provide increased portability of the contributions if an employee wished to transfer them to another employer plan. Under the present system, service may be transferred only within the participating Alaska public employers. Defined contribution plans are widely used in the private sector when pension plans are provided.

The department is presently assessing the specific impacts the plan proposed under SB 111 would have on employer costs, employee pension benefits, and the continued solvency of the present retirement systems. This assessment is necessary in order to develop meaningful fiscal projections as well as to evaluate the structural effects of such a change.

Signature:

Nancy Bear Usera

Date:

3/4/93

Nancy Bear Usera
Commissioner
Department of Administration

**Senate Bill 111
Recommended Changes**

Section 1

AS 39. Chapter 38.

- 010 Change effective date-- January 1, 1995 for PERS and July 1, 1994 for the TRS. This would provide time for many things; developing the plan document and getting an IRS tax qualification.**
- 020 No separate Board-- The DCRP board should consist of either a composite of the PERS and TRS boards or both boards combined.**
- 040 Unnecessary without a new board--- amend 14.25 and 39.35 to identify the additional duties of the boards.**
- 050 Change lines 6 & 7 page 3 to read-- "retirement plan as are provided in AS 39.30.175 for the state Supplemental Benefits Plan. The first priority for investment of assets is with the investment"**
- 100 Unclear about which employers, besides the state, are required to participate. Currently, TRS employers are required to participate in the TRS.**
- 110 Delete Sec. 39.38.110 (a), (b), (c), (d), and (e) beginning on line 13, page 4 and replace with--- A person who is a member of a state retirement system or who was first hired under a state retirement system prior to July 1, 1994 if having participated under AS 14.25. or January 1, 1995 if having participated under either AS 39. 35. or under AS 22.25.**

130 (b) Change lines 5 and 6, page 6 to read-- "paid from allocated federal funds, is included in the plan if the council elects to participate as an employer under the plan."

(d) Delete this subsection -- Remove NEA, since they are currently ineligible to participate in any of the state retirement plans.

(f) Delete this subsection-- only makes sense in the PERS

210 (a) Change line 31 page 6 to read--- "participating in the plan an amount equal to 5 percent of the employee's

There are several issues pertaining to the amount of employer and employee contributions allowable that we intend to discuss with the committee during testimony.

(b) Change lines 3 through 6 page 7 to read--- "amount equal to 4.5 percent of the employees' compensation.

(d) add language at the end of line 11 page 7 -- " The payments shall be made from accounts established by the administrator on behalf of each member. These accounts shall consist of all employer contributions made on behalf of the employee as specified in (a), the employee contributions as specified in (b) and all earnings accruing or losses attributable to the member's account."

(e) NEW SUBSECTION -- "All costs of administering the program established under AS 39.38 must be paid from the contributions made under this section."

(f) **NEW SUBSECTION** -- The member should vest in the employers' contributions over a seven year graduated vesting period. i.e.: 20% after 3 years, 40% after 4 years, 60% after 5 years, 80% after 6 years and 100% after 7 years.

2 2 0 Change lines 13 and 14 on page 7 to read -- plan is the responsibility of the company or other entity designated by the retirement board and is not the responsibility of the...

Payments of benefits are the administrative responsibility of the plan, the DCRP and the administrator, not the Pension Investment Board.

Additional language should be added, as in the SBS, which better defines the types of benefit annuity options. This section needs major changes to address vesting requirements and other benefit eligibility requirements.

3 1 0 Delete

3 2 0 (a) Change line 29, page 8 to read--- to the administrator.

Section 4 Delete--- refers to NEA participation

Section 7

Delete -- Any change to this statute will only affect future employees and since no future employees are to be included, no one will be affected.

Section 8

Change lines 20 through 22, page 14 to read as follows--- 1993. who is eligible to participate in the system, and who is covered by the system, limited to

Section 9

Delete the new language contained in line 11 through 14, page 15.---- this language refers to allowing transfers

Section 10 Delete this section---administrator of Court
System transfer

Section 13 and Section 14

All references to allowing employees to transfer
should be deleted.

Section 15

Delete -- for the same reasons as stated in Section 7.

Section 23

Delete this section.--- Defined Contribution Board
reference-- no new board, no need

Repealers

Repeal AS 14.25.045

Repeal AS 39.35.170(a)(1)

SECTION 415 LIMITS DISCUSSION

- * IRC Section 415 establishes limits which apply to the amount that an can be contributed to a qualified plan by both the employer and employee and establishes limits on the amount of benefits which can be paid from qualified plans.

- * A trust can be disqualified for tax favored treatment if an employer in the trust exceeds these limits, even if it is a multi-employer trust.

- * The limits under 415(c) apply to defined contribution plans by limiting the amount of contributions allowable to the trust.
 - * That limit is currently 25 percent of the employees covered compensation, or

 - * \$30,000

- * The limits under 415(b) apply to Defined Benefit plans by limiting the amount of the benefit the member can receive at various ages.

- * When the employer provides both a Defined Benefit and Defined Contribution plan, 415(e) provides a formula which is to be used. Clearly, the formula gives the employer more latitude under the limitations.

- * Section 415 limits exclude contributions made under the Social Security System.

- * There have been attempts for the last 5 years to make changes to the code to address several concerns which public sector plans have with how the limits can impact multi-employer plans, disability benefits and 20 year retirements.

Alaska State Senate

SENATOR STEVE RIEGER
District 1

Senate Finance Committee
Chair, Senate Health, Education
and Social Services Committee
Vice Chair, Senate Rules Committee
Vice Chair, Senate Labor and
Commerce Committee

State Capitol
Room 516
Juneau, Alaska 99801
(907) 465-3879

SENATE BILL 111 SPONSOR STATEMENT

Senate Bill 111 creates a new Defined Contribution Retirement Plan. The plan would apply to state employees first hired after July 1, 1993.

The bill proposes a two-tiered system. This means that all employees who are first hired before July, 1993 would continue their participation in the existing PERS and TRS systems.

Municipalities and school districts may join the plan; if not, new employees of those subdivisions would continue to enroll in the existing PERS or TRS systems.

In its basic nature, a defined contribution retirement plan is a plan in which the plan specifies the level of employer and employee contribution. From the date of the contribution forward, the principal and earnings on that contribution are invested, and separately accounted for in the name of that employee. In contrast, a defined-benefit plan specifies the level of benefits payable to an employee. The contributions of the employer and employee are pooled, and retirement payments to a retiree are drawn from the pool. PERS and TRS are defined-benefit plans.

One of the problems of defined-benefit plans is that an employer can short-fund the system. This is because the contribution levels are not defined. When short-funding happens, the fund can end up with insufficient funds to pay the retirees. Both PERS and TRS are at present each estimated to be \$300 million underfunded, (\$600 million total).

The advantages of a defined-contribution plan over a defined-benefit plan include:

- Removes the question about whether the retirement pool is of sufficient size to cover all retirement benefits. This is because each employee's contributions and earnings belong 100% to that employee and cannot be short-funded nor used to pay the benefits of another employee;

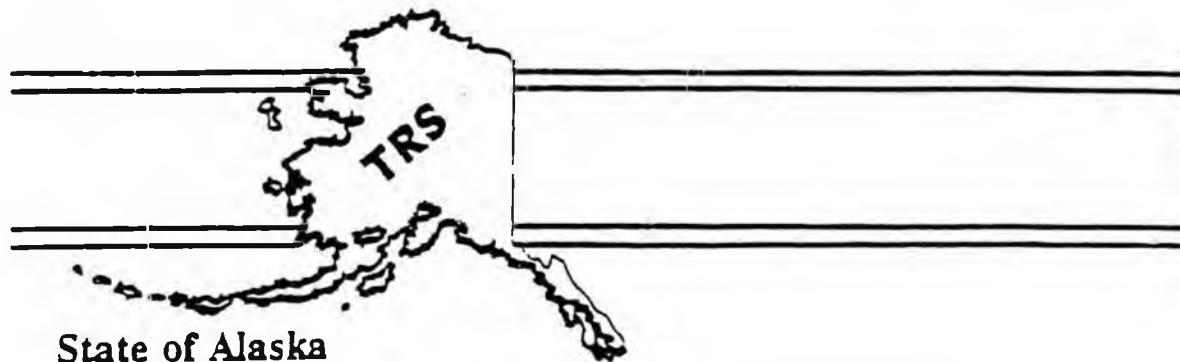
- The employer and employee know and receive the full cost and full value, respectively, of the retirement contributions made on that employee's behalf;

- Retirement accounts are more easily portable, meaning transferable to a different retirement account if an employee changes employers;

- Employees can gain more control over the investment of their retirement funds if the plan offers investment options; (the state's deferred-compensation plan is an example of this.)

WILLIAM M.
MERCER

Seelen



State of Alaska

Teachers' Retirement System

Actuarial Valuation Report
as of June 30, 1991

Prepared by:

William M. Mercer, Incorporated
One Union Square, Suite 3200
600 University Street
Seattle, WA 98101-3137

**1.3(a) Development of Total Employer Contribution Rate - FY94
(in thousands)**

Normal Cost Rate

(1)	Total Normal Cost	\$ 75,452
(2)	Total Salaries	422,655
(3)	Normal Cost Rate, (1) / (2)	17.85%
(4)	Average Member Contribution Rate	8.80%
(5)	Employer Normal Cost Rate, (3) - (4)	9.05%

Past Service Rate

(1)	Accrued Liability	\$ 2,075,405
(2)	Valuation Assets	1,779,579
(3)	Total Unfunded Liability, (1) - (2)	295,826
(4)	Amortization Factor (25 year)	10.706612
(5)	Past Service Cost, (3) / (4)	27,630
(6)	Total Salaries	422,655
(7)	Past Service Rate, (5) / (6)	6.54%

Total Employer Contribution Rate 15.59%

1.3(b) Three-Year Smoothing of Total Employer Contribution Rate

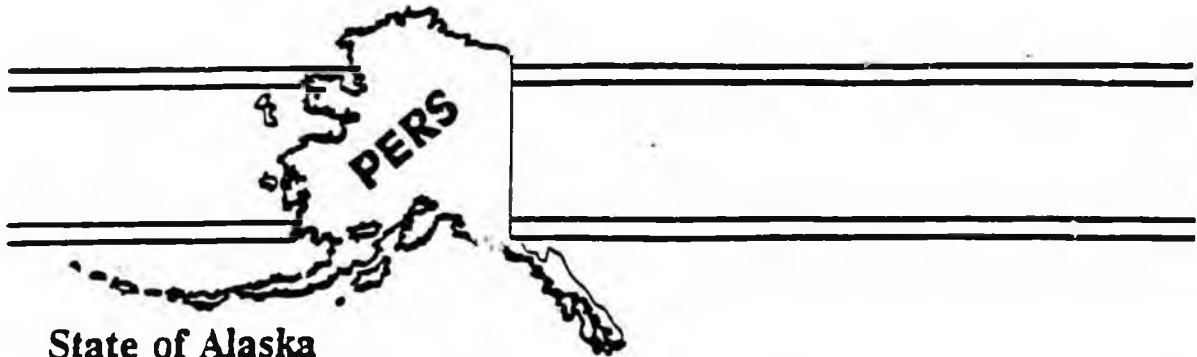
<u>Valuation Date</u>	<u>For Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Three-Year Average</u>
6-30-83	FY86	17.36%	
6-30-84	FY87	17.36%	
6-30-85	FY88	13.28%*	16.00%
6-30-86	FY89	11.16%	13.93%
6-30-87	FY90	8.19%	10.87%
6-30-88	FY91	12.27%	10.54%
6-30-89	FY92	15.16%	11.87%
6-30-90	FY93	19.65%**	15.69%
6-30-91	FY94	15.59%***	16.80%

* A change in actuarial assumptions on June 30, 1985 lowered the contribution rate from 16.68% to 13.28%

** A change in Plan provisions on June 30, 1990 increased the contribution rate from 12.89% to 19.65%.

*** A change in actuarial assumptions on June 30, 1991 reduced the contribution rate from 18.10% to 15.59%.

WILLIAM M.
MERCER
INCORPORATED



State of Alaska

Public Employees' Retirement System

**Actuarial Valuation Report
as of June 30, 1991**

Prepared by:

William M. Mercer, Incorporated
One Union Square, Suite 3200
600 University Street
Seattle, WA 98101-3137

The effect of the second tier is already being felt in PERS because second tier participants began entering the System in 1986. Over 50% of current active participants are already second tier. For this reason, contribution rates are already reflecting some of the cost savings provisions of tier 2 and are not expected to decline in the short run. Another factor which retards the expected decline in contribution rates is the anticipated increases in future health premiums.

As contribution rates are not expected to decline significantly for about 20 years, we recommend the Board adopt the calculated rate of 13.72%, instead of the smoothed rate of 13.25%, for FY94. We will continue to monitor the expected pattern of future rates to take into account actual tier 2 patterns, System experience and changes in the Statute. Some smoothing of the contribution rate may be appropriate in the future, depending on how these factors affect projected contribution rates.

Summary

The following table summarizes the sources of change in the total employer contribution rate:

(1) Last year's average employer contribution rate	13.58%
(2) Decrease in past service rate due to retiree medical insurance	(1.30%)
(3) Decrease in consolidated rate due to retiree medical insurance	(1.87%)
(4) Increase due to investment performance	0.48%
(5) Increase due to salary increases	0.26%
(6) Increase in past service rate due to employee data	1.33%
(7) Increase in consolidated rate due to employee data	0.69%
(8) Increase in average employer contribution rate due to change in actuarial assumptions	0.55%
(9) Average employer contribution rate this year	13.72%

MARKET NEWS & INVESTING

Money Market Funds	C17	NYSE Stocks	C3
Interest Rates	C20	Odd-Lot Trading	C5
Money Funds	C22	OTC Focus	C6
Nasdaq Stocks, ADRs	C1,8	Stock Market Data Bank	C2
New Securities Issues	C25	Treasury/Agency Issues	C14
NYSE Bonds	C14	U.S. Regional Markets	C9
NYSE Highs & Lows	C5	World Markets	C10

JOURNAL PHONE NEWSUPDATES AND CURRENT QUOTES
SEE GUIDE ON PAGE 94 FOR DETAILS **1-900-JOURNAL**

Aggressive Rate Assumptions Put Pension Funds at Risk

By SUSAN PULLIAM

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—Despite a lackluster stock market and the lowest long-term interest rates in 20 years, many of the nation's largest companies are avoiding large contributions to their pension funds by making aggressive assumptions about what they will earn on their pension investments.

In a survey of 1,600 corporate and public pension funds and endowments, consultants Greenwich Associates found that about 400 funds, or 25%, are projecting investment returns for their pension funds higher than 8.75%. Greenwich says any return assumption above 8.75% is risky. Many funds are assuming double-digit investment returns, the survey found.

By assuming they will earn high rates on their investments, companies can put off adding money to their retirement plans, based on the notion that the extra investment income will cover any shortfall in the funds. But such a strategy is leaving these pension plans and their retirees in a potentially risky situation, the Greenwich

study says.

Not all pension consultants believe that an adjustment to assumptions on rates of return is necessary now. Many industry experts stress that companies' investment assumptions are long-term estimates and shouldn't fluctuate based on one year's results.

The Greenwich study argues, however, that pension plans can no longer count on the high returns that they earned in the 1980s to continue. "In terms of return rates, the 1980s was an exceptional decade," the study says, with the investment return on bonds the highest in 50 years, and the return on stocks the highest since the 1950s.

According to Greenwich, 17% of the 1,600 pension plans they surveyed expect annual investment returns averaging better than 11% for the Standard & Poor's 500-stock index over the next five years. About 19% are expecting annual returns above 8% from their bond portfolios. The survey included interviews with 1,106 large corporate pension plans and 314 public pension plans. It also included interviews

with 174 endowments and foundations.

Among the companies assuming returns of more than 9% annually are General Motors Corp., Inland Steel Industries Inc. and Marsh & McLennan Cos.

Most pension funds have large holdings of both stocks and bonds. With the total return on the S&P 500, including reinvested dividends, dropping to about 7% last year, and yields on 30-year bonds currently at 6.8%, pension funds need to make adjustments, says Rodger Smith, a Greenwich partner. "Assumptions should be done in a long-term context, but long-term yields on bonds are sufficiently below these assumptions that it raises questions about whether we should re-evaluate," he says.

Companies that are avoiding costly contributions to their pension plans through too-high investment assumptions are "practicing deficit spending," Mr. Smith says. While these high return assumptions allow companies to avoid adding to their pension fund now, their losses could be magnified if the stock market takes a tumble, he says. Even a 10% drop in

the stock market could leave many pension funds with big deficits, the Greenwich study says.

Equally as troubling is the possibility that pension funds will take on large amounts of risky investments to try to achieve the high returns they have projected, Mr. Smith says. "We've learned that some plans have increased their risk levels to meet their actuarial assumptions."

Pension funds are sidestepping adding money to their retirement funds at a time when concern is high about the growing number of companies with underfunded pension plans. Last year, the government's Pension and Benefit Guaranty Corp. said the shortfall in underfunded corporate pension plans grew by \$10 billion to \$50 billion. The PBGC itself, which is supposed to serve as a backstop for corporate retirees' pensions, has a current deficit of about \$2 billion.

At the end of each year, pension plans judge whether their liabilities, which are their obligations to current and future

Please Turn to Page C21, Column 1

Estimates of Rates Of Return May Put Pension Funds at Risk

Continued From Page C1

retirees, exceed their assets, or investments. If their liabilities exceed their assets, they are then required to add money to the pension plan.

If a corporation makes a contribution to its pension plan, its earnings may be hurt. "In an environment where corporate profits are under pressure, no one wants to increase contributions to the pension fund because it has a negative impact on earnings," Mr. Smith says.

Public pension funds, meanwhile, may need to put additional demands on taxpayers to make up their shortfalls, he adds.

A GM spokesman says the company's return assumption reflects its long-term expectations for future returns. A spokesman for insurance broker Marsh & McLennan says the company "has exceeded a 9% return in the past and expects to in the future." He adds that Marsh's pension fund is "substantially weighted in equities."

An Inland spokesman says the rate of return on that company's pension fund exceeded 9.5% last year, in part because of successful junk-bond investments. He says the company thinks it will continue to earn returns above that level.

During the 1980s, when interest rates were as high as 20%, many pension funds assumed they would earn rates of return of about 8%, Mr. Smith says. But, with the historically high returns on stock and bond investments in the 1980s, pension plans were able to earn even higher returns than they had anticipated, allowing them to build up a financial cushion. As a result, a large number of pension funds have been able to avoid adding money to their pension plans over the past few years.

Still, the cushions built up by pension plans are dwindling. And, Mr. Smith adds, pension plans' surplus funds will shrink very rapidly if they fail to meet high return assumptions.

Consumer Savings Rates

Money Market Deposits-a	2.60%
Interest Checking-a	1.90%
Six-month Certificates-a	2.92%
One-year Certificates-a	3.17%
Thirty-month Accounts-a	3.84%
Five-Year Certificates-a	5.02%
U.S. Savings Bonds-b	5.04%

a-Average rate paid yesterday by 100 large banks and thrifts in the 10 major metropolitan areas as compiled by Bank Rate Monitor.

b-Current forecast yield. Guaranteed minimum 4% for bonds held five years or longer.