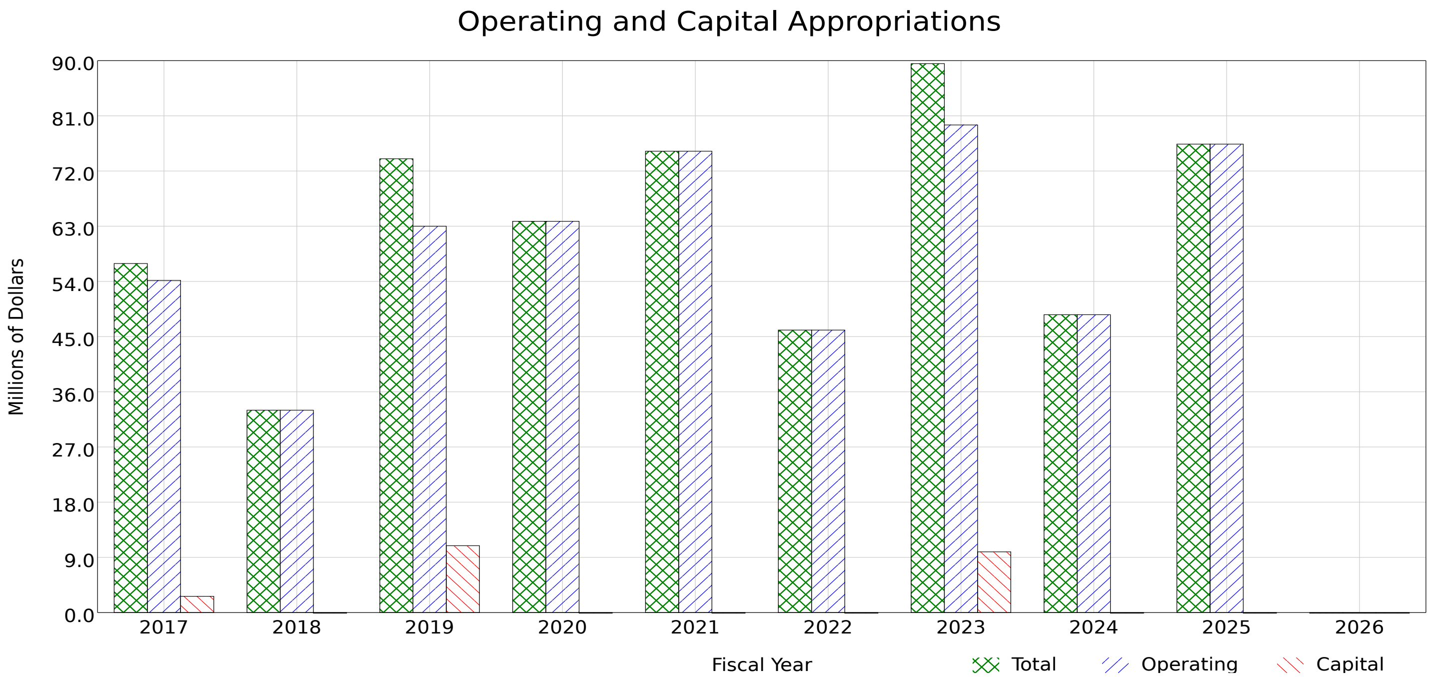
Fund Source Report

1169 PCE Endow Power Cost Equalization Endowment Fund

Year Authorized	Year Repealed	Active?	Mental Health?	Duplicated?	Fund Group
2000		Yes	No	No	Designated General



Legal Authority
AS 42.45.070-.085

Source of Revenue
Legislative appropriations, including the $100 million from the CBR (Chapter 75, SLA 2000) that established the endowment, accumulated earnings of the fund, gifts, bequests, contributions and federal money, and payments for sale of power from the Four Dam Pool. Proceeds from the sale of the four dam pool were deposited in the endowment.

Restrictions on Use
Up to five percent of the fund balance (monthly average for three prior years) may be appropriated to the Power Cost Equalization Fund annually. After FY17, surplus earnings may be used to support the Community Assistance program and rural energy programs.

This code should be used only for endowment payout, all of which is assumed to be earnings.

Description and History
In the late 1970's the transformation of a significant portion of Alaska's new oil wealth into a "permanent fund of hydroelectric power projects" with dividends of perpetual inexpensive energy for Alaska was proposed. Inexpensive energy was seen as one of the best means for promoting economic development and the (never-constructed) Susitna Dam was the first proposed project to meet this goal. The Alaska Power Authority was created in 1976 with $1 billion to spend on constructing a series of power projects. The PCE program began in FY85 and was funded with annual GF appropriations until FY94.

Ch. 18, SLA 1993 established the Power Cost Equalization and Rural Electric Capitalization Fund (the "PCE Fund") with a general fund appropriation of $66.9 million. The fund, comprised of the original appropriation, interest earned, 40% of the annual ending balance of the Four Dam Pool Transfer Fund and other appropriations, was used since 1995 to fund the PCE program. Despite several formula changes designed to limit PCE outlays, in FY00 the PCE fund balance declined to the point that it was no longer sufficient to cover program costs.

In an attempt to solve the ongoing problem of funding the PCE Program, Ch. 75. SLA 2000 established the Power Cost Equalization Endowment Fund (PCE Endowment--fund code 1169). The PCE Endowment was capitalized with $100 million from the CBR. In addition, an amount equal to the proceeds of the sale (and other incidentals) of the Four Dam Pool Hydroelectric Project, which was about $90 million, was appropriated to the PCE Endowment Fund.

The earnings and principal of the PCE Endowment are to be used to fund the PCE Program. The enabling legislation directs the Commissioner of

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Revenue to invest the fund in a manner likely to achieve at least a 7% nominal return over time and up to 7% of the average market value for the previous three fiscal years may be appropriated to the PCE Fund to be used for PCE expenditures. However, the PCE program is not strictly an endowment program in the sense that PCE grants are not limited to the amount of the endowment payout. From FY2000 through FY2005, PCE grants were legislatively capped at $15.7 million, roughly $3 million annually more than endowment earnings.

In FY07, the legislature appropriated $183 million to the endowment contingent on an increase in oil tax revenue during the 3rd quarter of FY06. With the passage of a new (and retroactive) method of taxing petroleum production, the contingency was met and the value of the endowment grew to about $400 million. That amount was sufficient to fully fund the PCE program at the current level of about $25 million in annual grants, but the program costs were projected to continue to increase.

Beginning in FY10, the endowment payout was supplemented with "the amount of GF necessary to fully fund the PCE formula". This approach:
1) fully funded the program with a combination of endowment payout and general funds,
2) eliminated the need for supplemental appropriations and/or pro-rata reductions in PCE payments, and
3) made the PCE fund an unnecessary intermediate step in the funding mechanism.

The Power Cost Equalization Fund (1089) was deactivated.

An FY11 supplemental appropriation of $400 million of general funds was intended to enable a payout of less than 7% to fully fund the PCE program beginning in FY15--the payout is based on a moving three-year balance.

May 2013

Code 1169 is to be used only for endowment payout, which is assumed to be new revenue from earnings. The code is therefore classified as DGF so both revenue and expenditures show in the fiscal summary.

October 2016

In 2016, the legislature passed Ch 43, SLA 2016 (SB196) allowing for the use of excess earnings from the Power Cost Equalization (PCE) Endowment Fund effective June 30, 2016.

Five percent of the amount available for appropriation (based on the monthly average market value of the fund for the previous three closed fiscal years) may be appropriated for PCE Program costs (including reimbursement to the Department of Revenue for management of the fund and administrative costs).

If earnings of the fund for the previous closed fiscal year exceed PCE Program costs, then the legislature may appropriate 70% of the excess as follows:
1) If the amount is less than $30 million, then all of the available funding goes to Community Assistance
2) If the amount is $30 million or more, then
   a. the first $30 million may be appropriated to Community Assistance,
   b. the remaining amount (not to exceed $25 million) may be appropriated to
      i. the renewable energy grant fund
      ii. the bulk fuel revolving loan fund
      iii. rural power system upgrades or
      iv. to a combination of the funds or purposes listed above, and
   c. Any earnings above $55 million remain in the fund

July 2023

The PCE Fund was not considered to be sweepable to the CBR until 2019, when Attorney General Clarkson wrote a memo including it in the list of sweepable funds. A 2021 Superior Court judge ruled that the fund should not be subject to the sweep, and that decision was not appealed. The fund was not swept in FY21 or subsequent years.

Ch. 12 SLA 23 (SB 98) transferred management of the PCE Endowment from the Treasury Division to the Alaska Permanent Fund Corporation.