

HOUSE FINANCE COMMITTEE
April 11, 2002
2:02 P.M.

TAPE HFC 02 - 82, Side A
TAPE HFC 02 - 82, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 2:02 P.M.

MEMBERS PRESENT

Representative Bill Williams, Co-Chair
Representative Eldon Mulder, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses
Representative Jim Whitaker

MEMBERS ABSENT

Representative Richard Foster

ALSO PRESENT

Representative Joe Hayes; Representative Drew Scalzi;
Representative Peggy Wilson; Vern Jones, Chief Procurement Officer, Department of Administration; Kara Altman, Travel Industry, Juneau; Cyndi Isaak, Travel Industry, Juneau; Eric Yould, Alaska Rural Electric Cooperative Association (ARECA), Anchorage; Mary McDowell, Commissioner, Commercial Fisheries Entry Commission; Ed Crane, Alaska Commercial Fishing & Agriculture Bank, Anchorage

PRESENT VIA TELECONFERENCE

Yulanda Johansen, Northern Lights Travel, Fairbanks; Danelle Kirschner, Progressive World Travel, Fairbanks; Ramona Oxendine, Vagabond Travel, Fairbanks; Sara Fisher-Goad, Alaska Energy Authority (AEA), Anchorage; Barb Marifern, Petersburg; Sue Moran, Petersburg; Marilyn Menish Meucci, Petersburg; Leo Steven Brown, Homer; Cora Crome, Anchorage; Bruce Marifern, Petersburg

SUMMARY

HB 175 An Act making an appropriation to the Alaska Industrial Development and Export Authority for power projects; and providing for an effective date.

HB 175 was HEARD and HELD in Committee for further consideration.

HB 287 An Act relating to the exemption of commercial fishing entry permits from claims of creditors, to loans to satisfy past due federal tax obligations of commercial fishing entry permit holders, and to loan origination charges for loans made by the commercial fishing loan program to refinance a debt obligation; and providing for an effective date.

HB 287 was HEARD and HELD in Committee for further consideration.

HB 300 An Act relating to the procurement of certain travel services.

HB 300 was reported out of Committee with a "do pass" recommendation and with a new indeterminate fiscal note by Department of Administration.

#HB504

HB 504 An Act relating to the wages of people working in the fisheries business.

HB 504 was SCHEDULED but not HEARD.

#HB175

HOUSE BILL NO. 175

An Act making an appropriation to the Alaska Industrial Development and Export Authority for power projects; and providing for an effective date.

Representative Lancaster MOVED to ADOPT Amendment #1, #22-LS0705\X.4, Kurtz/Utermohle, 3/26/02. There being NO OBJECTION, Amendment #1 was adopted.

Representative Hudson asked if the amendment had included the entire bill.

Representative Lancaster replied that it did and explained what it would accomplish. The amendment will establish a new funding mechanism and will remove the \$76 million dollars that is currently in the Railbelt Energy Fund and moves that fund to an asset of Alaska Industrial Development and Export Authority (AIDEA). AIDEA then would use it as an asset base to issue revenue bonds for projects in the amount

of \$43 million dollars. AIDEA would invest \$76 million dollars, securitized with the corporation and the income stream from that would pay the bonds.

Representative Lancaster highlighted the amendment:

- Section 1 - \$1 million dollars for a study and construction of an electrical interconnection between Juneau and Hoonah.
- Sections 2 & 3 - allow revenue bonds to be sold and for those funds to be appropriated to the project.
- #1, Page 2 - The sum of \$11 million dollars allocated to upgrade and extend the Anchorage-Fairbanks power transmission intertie to the Teeland.
- #2, Page 2 - Grant recipients from the power transmission inter-tie fund to the recipients named, for the purposes described and in the amounts set out:

\$2,000,000	Homer Electric Association
\$11,000,000	Anchorage Muni. light & power
\$5,000,000	Copper Valley Elec. Assn.
\$5,000,000	Cordova Electric Assn.
\$7,000,000	AK. Power & Telephone Co.
\$2,000,000	Kodiak Electric Assn.
- (f) - The intent language explains that once the revenue bonds are paid off, the \$76 million dollars would again would be available to have bonds issued against them and use that income stream from the fund to address a prioritized list.

Co-Chair Williams noted, it was not his intent to move HB 175 from Committee.

Representative Croft inquired why there was a difference between #1 and #2.

Representative Lancaster explained that was the way the drafter had prepared it, adding that there is no "real" difference between the two. The money will move to the project as outlined in Section C.

Representative Croft asked how long would it take before the State paid off the bonds and if the collective bonds would be sufficient to fund all for whatever term was left.

Representative Lancaster assumed they would be 15-year bonds. He pointed out that \$76 million dollars would be securitized and would remain an asset of AIDEA.

Representative Croft understood that when the bonds are paid, the money would be unencumbered and available for use as collateral for different projects. He asked if there was a list of State project needs.

Representative Lancaster replied the list had originated from the industry.

Representative Hudson asked the amount remaining in the Railbelt Energy Fund.

Representative Lancaster advised that \$76 million dollars was remaining which would need to be transferred. He pointed out that the fund had been the Governor's idea, and that it would perpetuate Representative Barnes (fund) concept forever.

SARA FISHER-GOAD, (TESTIFIED VIA TELECONFERENCE), ALASKA ENERGY AUTHORITY (AEA), ANCHORAGE, spoke to concerns of Representative Davies regarding how the bill was established.

ERIC YOULD, ANCHORAGE RURAL ELECTRIC COOPERATIVE ASSOCIATION (ARECA), ANCHORAGE, offered to answer questions of the Committee.

Co-Chair Williams noted that HB 175 would be HELD in Committee for further consideration.

#HB300
HOUSE BILL NO. 300

An Act relating to the procurement of certain travel services.

SENATOR JOE HAYES, SPONSOR, spoke in support of the legislation. He commented that HB 300 would allow for the exemption of contacts for certain types of travel services including airplane travel, hotel accommodations and travel agency services from the procurement procedures of AS 36.30.

He pointed out that travel agencies are facing a dismal situation. All major airlines excluding Alaska Airlines have completely cut commissions. That action is presenting a dire situation for Alaska travel agents.

Currently, Alaska only allows the use of agencies that do not charge fees. That action has excluded many agencies in the State from competing for State travel. It is difficult to provide travel without charging a fee, especially since those businesses already operate on a 1-2% margin.

The passage of the bill would eliminate the requirement for competitive procurement in order to pay fees, but it would

not prevent establishing future travel agency contracts when in the State's best interest. It would have no effect on the current travel agency contracts since they are preexisting and legally binding.

Representative Hayes noted that passing HB 300 from Committee would give all travel agencies in the State an opportunity to provide State travel. He added that it is time that the State pay for services rendered. Since the airlines have cut commissions, any travel the agency arranges for the State will essentially cost the agency money.

Senator Hayes pointed out that the fiscal note was listed as an indeterminate note. He hoped that the note would be absorbed by the State's overall travel budget.

Vice-Chair Bunde questioned if the State currently uses travel agents that do not charge fees.

Representative Hayes stated they do.

Vice-Chair Bunde asked why the State would want to eliminate that arrangement for one in which the State would be charged.

Representative Hayes explained that it is an issue of fairness. He added that it would be a cost savings to allow those travel agencies to charge the fee, as they are trying to find the best deal for the traveler. When an employee looks on the Internet, they might not be able to come up with the best price.

Representative Lancaster asked why rented cars were being excluded.

Representative Hayes responded that interest already carries a contract with the State.

Representative Hudson asked if the legislation would preclude the State from having new exclusive contracts with a travel agency. He inquired what the benefit to the State would be.

Representative Hayes explained that the legislation would allow the State to negotiate with individual travel agencies to determine a uniform fee. It would not preclude the State from having a single source dollar amount.

Representative Hudson asked if it would be similar to what the airlines are now doing.

Representative Hayes said it was.

VERN JONES, CHIEF PROCUREMENT OFFICER, DEPARTMENT OF ADMINISTRATION, advised that in the past, most travel agencies did not charge fees to the State because they got compensated 100% from travel service providers. Recently, all major airlines have reduced commission fees to zero, with the exception of Alaska Airlines. It is expected that they will follow suit soon. Because of this, no travel agencies can be expected to provide their services free of charge to the State any longer. The airlines are shifting the costs to the consumer, driving the consumer to their web sites where it is cheaper for the airlines to do business.

Mr. Jones stated that travel related procurements are not exempt from the procurement code. Since travel agencies have not charged the State for their services in the past, the State has not had to go out and get competitive procurements resulting in contracts for that service. The policy was to take advantage of the free travel agent services when available. When no travel agency was willing to provide free services in a community, the State then went out and established procurement contracts in that community. The policy resulted in single providers for the State in Juneau, Wrangell, Petersburg, Haines, Cordova, Seward and Dillingham. The bill would not prevent the State from continuing that practice. The intent of the bill is that the State no longer continues that practice.

Mr. Jones commented that if the bill is passed, the Department plans to meet with representatives of the travel agent industry to establish a benchmark fee schedule. Fee rates would then be eligible for State business. State employees would be given authority to utilize any travel agencies who have agreed to provide services that do not exceed those benchmark rates.

Mr. Jones added that the existing State travel contracts now in place would not be affected by the legislation. He mentioned that the fee is not without cost. The fiscal note indicates the difference between competitively awarded contracts and some sort of a negotiated universal fee, estimated to be around \$8 dollars a ticket or roughly \$229 thousand dollars a year. He emphasized that was a conservative number.

Vice-Chair Bunde asked the volume of the State agencies using travel services versus the number ten years ago.

Mr. Jones replied that he did not have the historical figures but on an average, last year, the State bought around 49,000 tickets. About 11,000 of those tickets were purchased directly from a web site or airline. The remaining 38,000 tickets were purchased through a travel agent. That number helped to determine the fiscal note.

Representative Hudson asked if passage of the legislation would provide for greater competition and fairer fares for the State.

Mr. Jones replied that a competitive award is the way to obtain the cheapest price. Continuing the current practice, more travel agents will go out of business.

Representative Hudson noted that the agents are not receiving fees back from the airlines and the industry.

Mr. Jones advised that Alaska Airlines is one of the two major airlines that still do provide commissions. The State expects that will end soon. In the State of Washington, over thirty travel agents have gone out of business in the last two weeks. The proposed bill will not necessarily keep the travel agents in business, but it will help.

Representative Lancaster asked why rental cars had been exempted.

Mr. Jones stated that rental cars fall into the same categories as hotels, airlines and travel agencies. The Department requested the change because it is only fair that all segments of the industry be treated alike. He explained that it would include rental cars in the list of industries excluded from the procurement code.

YULANDA JOHANSEN, (TESTIFIED VIA TELECONFERENCE), NORTHERN LIGHTS TRAVEL, FAIRBANKS, spoke in support of the legislation. She advised that her travel agency has had to discontinue service to the State of Alaska. Ms. Johansen advised that it would be well worth the State to pay the travel agent's cost and not have to pay the State employee their salary on time spent making travel arrangements. She urged passage of the bill.

Representative Hudson clarified the incentive was for travel agents now that the airlines have discontinued their payments fee.

Ms. Johansen replied that they would be using service fees, and that they had been using those fees for several years, however, the State had been excluded from that charge.

DANELLE KIRSCHNER, (TESTIFIED VIA TELECONFERENCE), PROGRESSIVE WORLD TRAVEL, FAIRBANKS, echoed the sentiments voiced by Ms. Johansen. She urged that the State come forward and pay the service fee.

RAMONA OXENDINE, (TESTIFIED VIA TELECONFERENCE), VAGAGOND TRAVEL, FAIRBANKS, advised that her travel agency has been charging service fees for many years. Ms. Oxendine urged that the Committee consider the repercussions if the service

fees are not paid. She pointed out that it is not uncommon to be on hold for a long time when making reservations.

KARA ALTMAN, TRAVEL INDUSTRY, JUNEAU, commented that she had spent fourteen years in the travel industry in Juneau, working for Southeast Alaska Executive Travel. That agency had to close their doors a year ago due to the commission cuts and the State's refusal to pay the fee.

Ms. Altman added that the cut to zero would force more agents to close. If the travel agents are forced out of business, it will affect all Alaskans. All Alaskans will be forced to accept whatever the airlines decide to tell them. She stated that it costs around \$30 to \$35 dollars to issue a ticket to cover overhead costs and salaries. Travel agents cannot afford to subsidize the State of Alaska.

Ms. Altman added that in Juneau, the State does pay a \$5 dollar fee to US Travel as part of their contract. The State of Alaska has had a contract in place with Avis Car Rental for three years.

In response to comments by Vice-Chair Bunde, Ms. Altman noted that she is no longer doing business with the State. At present time, there are only four travel agencies in Juneau, while a couple years ago, there were ten. She added that she does not do any State business because of the low charge.

CYNDI ISAAK, TRAVEL INDUSTRY, JUNEAU, spoke in support of the legislation. She noted that she worked out of her home and that she was before the Committee as a "voice" of her customers. Those customers would like to have a choice again. She added that she supported the agreed fee.

Ms. Isaak pointed out that the Internet does not always guarantee that the person can get the best fare. Travel agents have the customer's best interest at stake when making travel arrangements. Travel agents have been forced by the airlines and have no choice but to charge a fee. With zero commissions, fees were raised.

Vice-Chair Bunde asked if the State currently pays the service fees.

Mr. Jones replied that for a typical ticket from Juneau to Anchorage, there is a \$5 dollar service fee; currently, Alaska Airlines kicks in \$15 dollars for a commission. As soon as the commission is cut to zero, the State will be back at the bargaining table for the contract. He noted that it is a fixed fee and that the other fares are \$8 dollars for a flat fee.

Vice-Chair Bunde asked if it was fair to assume with Alaska Airlines reducing their fee that the fee would drop to \$20-\$28 dollars.

Mr. Jones explained that the maximum that the State would pay would increase that fee to \$20 dollars, which is the highest negotiated contract.

Vice-Chair Bunde inquired how many tickets were written last year.

Mr. Jones reiterated that 30,000 tickets had been written last year.

Vice-Chair Bunde calculated that would total about \$750 thousand dollars.

Mr. Jones responded that was not the cost associated with the bill before the Committee. The State anticipates the cost to be approximately \$229 thousand dollars, which is the difference between competing for a fare and attempting to set a negotiated fare. All travel agents would have to live with that price. The \$500 thousand difference between the two numbers would be the cost shifting by the airlines. The State would be paying that cost regardless, no matter what the change is. The question before the Committee is whether to continue to use the procurement code or establish some threshold fee that everyone can live with.

Vice-Chair Bunde asked how the \$500,000 would be a cost shifting.

Mr. Jones replied that it would not be a cost effective use of the State employees time to be shopping airlines and the Internet for tickets. From the 11,000 tickets currently being purchased from the airlines, there would be no change in price; however, it is the 38,000 tickets being bought from the travel agents that there would be a cost shifting and fee increase. The State will be paying additional fees if what is currently being done, is continued. He added that the State would have to make travel agent commissions. If it were opened up, there would be a premium fee.

Mr. Jones clarified that the bill does allow the State to do something other than competitively award contracts by location. He claimed this would be the cheapest way for the State to go.

Vice-Chair Bunde thought that a competitive bid would have one agency handle the entire State and cautioned that the bill would not limit it to one agency location.

Mr. Jones agreed that was possible.

Representative Croft asked why this is not currently allowed in the procurement code.

Mr. Jones explained that the procurement code requires competitive bidding over \$5,000 dollars, but it also encourages the State to consider the "whole". If there is a service that is going to be needed over time, that service should be aggregated into a larger procurement.

TAPE HFC 02 - 82, Side B

Mr. Jones added that as the travel agent industry has changed, no one is willing to waive fees in their community. Competitive contracts are being established in each community.

Representative Croft asked why the State could not set the fee at \$20 dollars by regulation.

Mr. Jones replied that the State does not have the authority to establish rates.

Vice-Chair Bunde asked if there would be Legislative oversight over the contracts.

Mr. Jones responded that it should be Legislative intent that the State not establish just one contract. The bill intends the State to do business with as many travel agents as reasonable.

Vice-Chair Bunde interjected that will not be the most cost effective way to buy airline tickets.

Representative Hudson asked if there were any on-going evaluations, which could help reduce the State's air travel. He recommended purchasing mass certificates.

Mr. Jones interjected that there have been attempts, however, when there is an airline monopoly and that industry "calls the shots". Mr. Jones noted that the State of Alaska is a "very good" customer and that they should be able to get at least the best-unrestricted fare with no advanced fee. Alaska Airlines has not been interested in negotiating.

Representative Hayes wrapped up the discussion on HB 300. He stressed that the purpose of the bill was to address fairness. The State of Alaska is using a service and at this time is not paying a fee for that service. There are many small businesses and industries that will be shutting down their doors because of the current atmosphere.

Representative Hayes advised that Alaska should be filing a fee for State travel services.

Representative Hayes noted the advantages that the travel business brings into the community. He believed that the State should not receive compensation. By using travel agencies, there should be an overall cost savings.

Representative Whitaker asked if the bill would allow for an acceptable fee threshold for the State and/or any agency that could afford to do business. The Department has indicated that it will cost \$238 thousand dollars more than currently is being paid.

Representative Hayes acknowledged that was correct.

Representative Davies pointed out the "other" savings, such as the employee's amateur attempt to find the lowest costs.

Co-Chair Mulder noted the indeterminate fiscal note. He assumed that the actual number would be less than projected in the note.

Co-Chair Mulder MOVED to report HB 300 out of Committee with individual recommendations and with the accompanying fiscal note. Vice-Chair Bunde OBJECTED.

Vice-Chair Bunde agreed that the State should pay for the receipts, however, the travel industry is currently in flux and he anticipated that there would be more changes coming. He did not think that the legislation would be helping the "mom & pop" companies. He added, it is important that the Legislature determine what is most important, to shore up an industry that is in a state of flux or to get the most economic travel advantage. Vice-Chair Bunde commented that the legislation would favor the larger agencies over the smaller ones. He thought that it was the job of the legislature to reduce the costs of travel.

A roll call vote was taken on the motion.

IN FAVOR: Harris, Hudson, Lancaster, Whitaker,
Williams, Mulder, Davies, Moses, Croft
OPPOSED: Bunde

Representative Foster was not present for the vote.

The MOTION PASSED (9-1).

HB 300 was reported out of Committee with a "do pass" recommendation and with an indeterminate fiscal note #1 by Department of Administration.

#HB287
HOUSE BILL NO. 287

An Act relating to the exemption of commercial fishing entry permits from claims of creditors, to loans to satisfy past due federal tax obligations of commercial fishing entry permit holders, and to loan origination charges for loans made by the commercial fishing loan program to refinance a debt obligation; and providing for an effective date.

Co-Chair Williams noted that the Committee would take public testimony on HB 287 and then the bill would be HELD in Committee for further consideration.

MARY MCDOWELL, COMMISSIONER, COMMERCIAL FISHERIES ENTRY COMMISSION, spoke to the provisions of bill intended to clarify the legal status of limited entry permits under Alaska law.

She noted that the State of Alaska has always held the position that limited entry permits are not property and cannot be seized by creditors.

"An entry permit constitutes a use privilege that may be modified or revoked by the legislature without compensation."

Ms. McDowell added that State law provides the only entities that may treat limited entry permits as collateral are the two state-created fishery loan programs. The legal status of permits is an important element of the fisheries management system as it ensures that the State maintains control of fishing privileges. She noted that the State has consistently fought against attempted seizure of permits by the IRS and other creditors. Some of the Alaska statutes are not clear on that point and leaving the legal status of permits open in any way to varying interpretation, could be detrimental to the interests of the State.

If anyone could argue that permits can be construed to be property, Alaska's fishery management system could become de-stabilized.

Ms. McDowell added that with some Alaska fisheries struggling economically right now, it is important to make sure statutes are as clear and consistent as possible about the legal status of permits.

She listed specific provisions of the bill, which could clarify the permit status.

- Section 1 revises a section in Title 9 and current law includes entry permits in the list of the types of property to which an individual is entitled to exemption.

The legislative intent was to show the special exempt status of permits. There might be risks that someone could argue that the fact the permits show up implies that they are "property." Thus, the bill removes permits from that section of Title 9, and in place of that language, inserts precise language in the Limited Entry Act.

- Section 6 inserts language in the Limited Entry statutes to make it absolutely clear that the only time a person may request the commission to transfer an entry permit due to an execution on the permit is if that execution is for the purpose of enforcing a lien recorded with the commission under the statutes of the Child Support Enforcement Division.
- Section 7 spells out that fishing privileges are exempt from the claims of all creditors, making exceptions only for fishing loans under the State Division of Investments and Commercial Fishing and Agriculture Bank (CFAB) and for the Child Support Division's authority to place a lien on a permit.

Ms. McDowell maintained that these provisions were being put forward at a critical time:

- Hard times in the salmon industry are likely to push more fishing families into financial trouble; and
- Additionally, a recent federal maritime case has heightened the need to firm up the legal status of limited entry permits.

Federal legislation may be introduced soon in response to the ruling in that case, stating clearly in law that the federal government shall honor the legal status bestowed upon fishing privileges by the governmental entity issuing the privilege. Ms. McDowell stated that clarity and consistency in State law is more important and significant than ever. Passage of the bill would put Alaska in a much better position to fully benefit from such federal legislation.

Ms. McDowell noted that the Commission fully supports the Fisheries Committee substitute and urges passage of that bill.

Co-Chair Mulder requested that Ed Crane, Alaska Commercial Fishing and Agriculture Bank, describe the substance behind the committee substitute.

Following a brief at-ease, Co-Chair Williams advised that HB 287 would be held in Committee.

HB 287 was HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 3:12 P.M.