

HOUSE FINANCE COMMITTEE
April 15, 2003
1:40 PM

TAPE HFC 03 - 58, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:40 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Dan Fauske, Executive Director, Alaska Housing Finance Corporation, Department of Revenue; Bryan Butcher, Legislative Liaison, Alaska Housing Finance Corporation; Joe Doubler, Chief Financial Officer/Finance Director, Alaska Housing Finance Corporation; Ron Miller, Executive Director, Alaska Industrial Development and Export Authority; Mike Berry, Chairman, Alaska Industrial Development and Export Authority, (AIDEA) Board.

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 203 "An Act relating to the definitions of 'net income' and 'unrestricted net income' for purposes of calculating the dividends to be paid to the state by the Alaska Industrial Development and Export Authority; and providing for an effective date."

HB 203 was HEARD and HELD in Committee for further consideration.

HB 256 "An Act relating to a dividend payment to the state made by the Alaska Housing Finance Corporation each fiscal year; and providing for an effective date."

HB 256 was REPORTED out of Committee with a "do pass" recommendation and one new zero fiscal note by the Department of Revenue.

#hb256

HOUSE BILL NO. 256

"An Act relating to a dividend payment to the state made by the Alaska Housing Finance Corporation each fiscal year; and providing for an effective date."

DAN FAUSKE, EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION (AHFC), DEPARTMENT OF REVENUE testified in support of the legislation and provided information on the bill's history. He explained that AHFC entered into a transfer plan agreement with the state of Alaska in 1995/6. The agreement specified an annual transfer of \$103 million or an amount not exceeding prior year net income. He went on to explain that over recent years, AHFC had begun selling bonds on behalf of the state to support debt service payments. He noted that of the \$103 to be paid to the State, \$50 million was used to service debt on outstanding bonds, and \$53 million went to support AHFC's capital budget.

Mr. Fauske noted that in recent years corporate income had declined due to [low] interest rates and the market economy. He observed that loan activity was strong, but pointed out that interest earnings had decreased by nearly four percentage points. He explained that when the transfer plan was devised, it was based on a six percent return, whereas currently the return was 1.5 percent.

Mr. Fauske highlighted that more and more Alaskans were now becoming homeowners since interest rates were so low. He recognized that the corporation needed to take into account declining interest rates in respect to the amount paid by AHFC to the State. He noted that the board had submitted \$75.6 million as its dividend in FY 03, since that represented its net income and was prescribed by the transfer plan. He also noted that negotiations were underway to arrive at a plan to bring the dividend up to the level expected by the State.

Mr. Fauske stated that the purpose of the bill was to bring the AHFC dividend in line with government needs without

affecting bond ratings. He explained that the legislation proposed an increased payment of 95% of net income, followed by a gradual decline in payment levels until FY 08. He noted that the plan had been discussed favorably with investment bankers. He pointed out that the rating agencies must be comfortable with arrangements in order for banks to invest in Alaska bonds. He added that the majority of bonds would be paid off on June 1 of 2006, making the corporation debt free in the next two fiscal years. He concluded that the bill would improve Alaska's bond ratings and strengthen the economy.

Co-Chair Harris asked whether the dividend guarantee proposed by the bill would in any way threaten the solvency of the corporation.

Mr. Fauske clarified that the corporation would continue to approach the legislature with its appropriation needs. He noted that AHFC's capital projects were greatly assisted by last year's legislative decision to allow AHFC to sell bonds to gain capital. He confirmed that AHFC would remain financially sound as long as the legislature continued to consider the corporation's business needs on an annual basis.

Representative Foster MOVED to report HB 256 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION it was so ordered.

HB 256 was REPORTED out of Committee with a "do pass" recommendation and one new zero fiscal note by the Department of Revenue.

#hb203

HOUSE BILL NO. 203

"An Act relating to the definitions of 'net income' and 'unrestricted net income' for purposes of calculating the dividends to be paid to the state by the Alaska Industrial Development and Export Authority; and providing for an effective date."

REPRESENTATIVE HAWKER, SPONSOR, testified in support of the bill. He explained that the bill regarded the formula by which the Alaska Industrial Development and Export Authority (AIDEA) determined its dividend to the state of Alaska. He noted that current statutes directed that 25 to 50 percent of Authority's net income be paid as a dividend to the State, not to exceed its unrestricted net income. He stated that the language defining "net income" was later modified to agree with the agency's accounting standards and annual report language. He noted that the legislature subsequently

defined the income subject to distribution to exclude intergovernmental transfers, capital contributions and grants. He pointed out that the State did not wish to change these exclusions.

Representative Hawker observed that assets invested in by AIDEA had become impaired in the current fiscal year. He acknowledged that there is a loss of value when something happens to an asset owned by AIDEA that causes its value to decline or become impaired, but emphasized that the operating net income for the year is not affected. He maintained that impaired assets do not affect the Authority's current net income. Impairments are currently taken into consideration in calculations of net income for AIDEA dividend distributions. In the current year, values of certain assets were written down as impairment loss, which resulted in a negative net income and no dividend to the state of Alaska.

Representative Hawker stated that the proposed bill would change this practice, and no longer account for failed assets when calculating the dividend since these non-performing properties do not result in a net loss to the agency. He observed that, had the State not factored two impaired assets into AIDEA's net income for the past fiscal year, the State would have received between \$9 and \$18 million in a dividend payment. He emphasized the benefit of clarifying the dividend policy and stated that there is no reason not to have a general fund contribution by AIDEA when unusual write-downs occur, which do not have an otherwise detrimental affect on the cash flow.

Representative Hawker noted that at the end of fiscal year, AIDEA showed \$789 million in unrestricted net assets. He maintained that the new procedure would not result in a loss to the agency, and would enable the State to budget for a consistent dividend payment.

In response to a question by Co-Chair Harris, Representative Hawker stated that the Labor and Commerce Committee did not amend the bill. Co-Chair Harris asked for clarification about the net effect of the bill.

Representative Hawker clarified that the bill would further define "net income" and "unrestricted net income" for the purpose of calculating the dividend.

Co-Chair Harris expressed his strong support of the bill.

MIKE BARRY, CHAIRMAN, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, (AIDEA) spoke in opposition to the legislation. He explained that the basis for opposition was the issue of consistency. He discussed the history of the dividend policy and expressed the Board's full support of

the current policy. He noted the controversy within the businesses community regarding the rules established for calculating the dividend payment. He pointed out that this was the first year in which AIDEA had not paid a dividend. He stated the reason as being two large investments that had suffered impairment.

Mr. Barry maintained that the Authority might be damaged by the prospect that the legislature may at any time change the rules established by the original statute. He noted that a lack of consistency might negatively impact the impression of the Authority by the business and bonding community.

HB 203 was HEARD and HELD in Committee for further consideration.

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Co-Chair Williams requested that members sign the Confirmation Committee Report to forward Nelson Page (Anchorage) for consideration as a member of the Board of Trustees of the Mental Health Trust Authority.

ADJOURNMENT

The meeting was adjourned at 2:10 PM