

HOUSE FINANCE COMMITTEE
May 08, 2003
8:52 AM

TAPE HFC 03 - 82, Side A
TAPE HFC 03 - 82, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 8:52 AM.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Eric Croft
Representative Reggie Joule

ALSO PRESENT

Representative Beth Kerttula; Representative Ethan Berkowitz; Representative Lesil McGuire; Tom Lawson, Director, Administrative Services, Department of Community and Economic Development.

PRESENT VIA TELECONFERENCE

Tracy Townsend, Anchorage; Brian Brubaker, Anchorage; Edgar Blatchford, Commissioner, Department of Community and Economic Development; Hans Roeterink, Executive Director, Alaska Science and Technology Foundation.

SUMMARY

HB 205 An Act relating to service in the peace corps as an allowable absence from the state for purposes of eligibility for permanent fund dividends and to the period for filing an application for a permanent fund dividend; authorizing the Department of Revenue to issue administrative orders imposing sanctions for certain misrepresentations or other actions concerning eligibility for a permanent fund dividend and

providing for administrative appeal of those orders; and providing for an effective date.

HB 205 was REPORTED out of Committee with a "do pass" recommendation and one new zero fiscal note from the Department of Revenue.

SB 173(efd fld) "An Act repealing statutes pertaining to the Alaska Science and Technology Foundation and transferring money in the foundation's endowment; repealing statutes relating to the BIDCO assistance program; repealing statutes pertaining to the international trade and business endowment and transferring money in the international trade and business endowment; transferring oversight administration of outstanding Alaska Science and Technology Foundation loans and grants to the Alaska Industrial Development and Export Authority; establishing an Alaska BIDCO assistance program to be administered by the Department of Community and Economic Development; and making conforming amendments."

SB 173 (efd fld) was REPORTED out of Committee with a "do pass" recommendation and two fiscal notes: #1, zero note, from Department of Community and Economic Development (Alaska Science and Technology Foundation), and #2 from Department of Community and Economic Development (Alaska Industrial Development and Export Authority), (AIDEA).

#hb205

HOUSE BILL NO. 205

An Act relating to service in the peace corps as an allowable absence from the state for purposes of eligibility for permanent fund dividends and to the period for filing an application for a permanent fund dividend; authorizing the Department of Revenue to issue administrative orders imposing sanctions for certain misrepresentations or other actions concerning eligibility for a permanent fund dividend and providing for administrative appeal of those orders; and providing for an effective date.

REPRESENTATIVE LESIL MCGUIRE, Sponsor, provided information on the bill. She noted that similar legislation had been passed out of the House in the last session, but it was not acted upon in the Senate. She explained that in 1982 a list of exemptions were put in place for the Permanent Fund Dividend to recognize that there were true Alaskans that live in and contribute to the State but were forced to be out of the State for limited time periods. She noted that the exemptions were very narrow. She pointed out that for

sixteen years Peace Corps volunteers had been given exemptions, added along with the military, since they were in a competitive national program to serve the country. She recalled that the bill had received a wide array of public testimony during its hearing in the House Finance Committee in the last legislature. She emphasized that Peace Corps volunteers received only a small living stipend, and maintained that the dividend made a significant impact on their livelihood. She noted that volunteers could not have any debts, other than student loans. She maintained that the bill recalled the initial intent of 1982. She stated that in 1998, Peace Corps volunteers were removed from the list of exemptions. She maintained that this was a politically motivated action based on biases. She contended that volunteers come from a wide variety of backgrounds and did not represent any one political viewpoint.

Representative McGuire proposed that this time in history called for more volunteerism in third world countries. She discussed the skills and services provided by Peace Corps volunteers, which she maintained were equal to the importance of service provided by military personnel. She also pointed out services, such as teaching, provided to the state of Alaska by Peace Corps volunteers when they returned to the state at a rate of roughly 82 percent. She emphasized that these volunteers had been a part of the original list of exemptions. She pointed out that there were on average 32 volunteers per year, which would impact dividend payments by about 3 cents.

Representative McGuire also pointed out the real problem of dividend fraud. She stated that although it resulted in a loss of thousands of dollars each year, fraud was not prosecuted since it required a costly jury trial. She noted that Section 4 of the bill established an administrative penalty for dividend fraud. She explained that in the House State Affairs Committee discussion had occurred, which resulted in the implementation of a \$3,000 penalty level. Rules of case law require a jury trial once administrative penalties reach a certain threshold. In addition to the penalty, those found guilty of fraud will be denied a permanent fund dividend for five years. She suggested that to impose penalties for fraud would provide a needed deterrent. She concluded that the bill provided a dividend for true Alaskans who participate in a national program, and a penalty for fraudulent applicants.

TRACY TOWNSEND, ANCHORAGE, testified via teleconference in support of the bill. As a former peace corps volunteer, he indicated that the bill would encourage peace corps volunteers to return to Alaska.

BRIAN BRUBAKER, ANCHORAGE, testified via teleconference in support of the bill. He referred to friends who were volunteers.

Representative Foster MOVED to report HB 205 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTIONS, it was so ordered.

HB 205 was REPORTED out of Committee with a "do pass" recommendation and one new zero fiscal note from the Department of Revenue.

#sb173

SENATE BILL NO. 173(efd fld)

"An Act repealing statutes pertaining to the Alaska Science and Technology Foundation and transferring money in the foundation's endowment; repealing statutes relating to the BIDCO assistance program; repealing statutes pertaining to the international trade and business endowment and transferring money in the international trade and business endowment; transferring oversight administration of outstanding Alaska Science and Technology Foundation loans and grants to the Alaska Industrial Development and Export Authority; establishing an Alaska BIDCO assistance program to be administered by the Department of Community and Economic Development; and making conforming amendments."

EDGAR BLATCHFORD, COMMISSIONER, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT testified via teleconference. He noted that the bill repealed the existing statute creating the Alaska Science and Technology Foundation (ASTF) and its programs, including foundations grants and the Business and Industrial Development (BIDCO) assistance program. He also noted that the bill also repeals the statute creating the International Trade and Business Endowment in the Science and Technology Foundation. Subject to appropriation, the bill provides for the transfer to the General Fund of funds remaining in the ASTF Endowment fund and the International Trade and Business Endowment. Oversight for administration of existing ASTF grants and other financial assistance will be transferred to the Alaska Industrial and Export Authority. He pointed out that a new BIDCO assistance program was established and administered by the Department of Community and Economic Development.

Mr. Blatchford stated that ASTF had been established in 1988 with an endowment of more than \$100 million to support grants for technology projects, small business innovation research and direct grants to teachers. He noted that ASTF has generated \$126 million in income for distribution. He maintained that between 1988 and 2002, one half of the

endowment income (\$63 million) has been appropriated for non Alaska Science and Technology Foundation programs, such as for the University of Alaska operations, Alaska Aerospace operations, and trade and development operations. He noted that \$17 million had been appropriated to the state's General Fund, and \$11 million in federal match funding. He stated that the remaining \$63 million was distributed in technology and knowledge project grants, schools and science museums, science teacher grants, and ASTF operations. In mid march the Governor approved a supplemental appropriation to reduce funding to the amount spent and obligated to date, and provided intent to wind down operations in May 15 of 2003. He noted that ASTF is not included in the FY 04 budget.

Co-Chair Harris observed that the BIDCO systems program would continue and asked how it would be staffed and funded.

TOM LAWSON, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT noted that a new program would be set up in the Department of Community and Economic Development. He noted that no funding would be appropriated at this point, which resulted in a zero fiscal note. The program would be maintained if at some point the legislature chose to fund it.

Representative Berkowitz referred to a letter provided by the Governor's office to Alaska Science and Technology Foundation. He raised concern over the accusations contained in the letter, and suggested that someone should take responsibility for speaking to the accusations.

HANS ROETERINK, EXECUTIVE DIRECTOR, ALASKA SCIENCE AND TECHNOLOGY FOUNDATION provided information via teleconference. He disagreed with the listed viewpoints of the letter, which questioned the effectiveness and appropriateness of ASTF grants.

Co-Chair Williams noted the list of questionable projects, including a specific reference to a \$1.3 million payment to UCLA to patent a commercialized radioactive waste treatment project that contained the actual patent number. He maintained that the Governor's letter was adequately substantiated.

Representative Berkowitz stated that he had questions on the follow-up on some of the examples, such as radioactive waste disposal programs, and wildlife programs, \$233 to convince Alaskans to stop smoking, transferring technology to Alaska, etc. He suggested that these projects had potential implications for our state and stated that he would like to have more information on these grants. He maintained that the list did not appear to be objective, and suggested that

the legislature should investigate more fully and review more solid information.

Co-Chair Williams emphasized the poor performance compared to the return on the amount invested through ASTF grants, and stressed that under the State's current financial situation it could not afford to provide venture capital that did not provide a return. He reiterated that the state of Alaska had taken \$11 million from the Alaska Science and Technology Foundation for various projects. He maintained, however, that of the \$63 million, returns had not been received, although the Foundation had been spending down the corpus of the fund. He pointed out that on February 12, 2003, the Alaska Science and Technology Foundation Board passed a resolution authorizing a conversion credit program that would forgive two thirds of repayment of the debt owed by its recipients.

Mr. Roeterink explained that BIDCO grants were actually loans, and stated that the logic was to allow successful companies to repay part of their loans through other means than simply money, for example through jobs or other service. He noted that the program was to last over a ten-year period. In response to a question by Co-Chair Williams, Mr. Roeterink stated that ASTF could not afford to lose companies due to cash flow issues.

Co-Chair Williams asked why the program had subsequently been placed on hold. Mr. Roeterink stated that this was due to lack of support for the program by the legislature.

Representative Berkowitz asked why the legislature could not keep the program in place while stripping its assets. Co-Chair Williams maintained that the Administration wished to do so since the Foundation had not been successful, and suggested that Alaska Industrial Development and Export Authority, (AIDEA) might be more successful.

Representative Berkowitz asked if AIDEA would be required to continue all functions. Mr. Lawson noted that the only function it would continue was monitoring the maintenance of grants. He noted other programs were currently offered by AIDEA. He clarified that the other functions would not be continued.

Co-Chair Harris observed that the Administration did not intend to fund the program, and wished to have it off the books, unless a future program was initiated by statute. He asked if the Alaska Science and Technology Foundation had outstanding obligations, either moral or legal, to continue operations for other organizations, such as fish hatcheries, and whether there was a mechanism to continue these obligations.

Mr. Lawson responded that the funding would end at the end of FY 03, and the Alaska Science and Technology Foundation Board would meet with current grantees. Grantees had been notified by mail, and had to submit information to the Board. He summarized that programs that had expected funding in FY 04, would not receive that funding since it would not be available. He noted that final decisions on any grantee payments would be made on May 15 and then operations would cease.

Co-Chair Harris asked whether any organizations had been promised multi year payments, upon which they had already acted. He asked if there was any moral obligation outstanding, and how it would be handled.

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Mr. Lawson stated that grantees that were expecting funding in FY 04 totaled approximately \$1.4 million. He deferred to Mr. Roeternink to address moral obligations to grantees. He did observe that some grantees expecting funding in FY 04 had contacted legislators to seek specific appropriations for their projects.

Mr. Roeternink stated that there were 14 grantees outstanding, with one project extending to FY 2006. He noted that many grantees had invested heavily anticipating continuing funding. He gave the example of Americulture that was halfway into a six-year research plan, and would now how to shut down since funding was discontinued. He maintained that many grantees would now either be forced to close or limit their work. He noted that there was no legal obligation to continue funding, but maintained that we were morally obligated to continue funding the grants.

Co-Chair Williams asked how long the 14 grantees had been in existence. Mr. Roeternink noted that there was a range of project lengths, from two to three years. Co-Chair Williams asked if the projects had been in business long enough to borrow money from other sources, including AIDEA. Mr. Roeternink pointed out that the programs were attempting to address scientific problems in Alaska, but noted that they may not be able to be successful in forming equity partnerships. He maintained that AIDEA might not be able to take on these projects under the current circumstances of the grant.

Representative Moses MOVED Amendment #1 as follows:

Page 1, line 1:
Delete "repealing statutes pertaining"
Insert "relating"

Page 2, line 2:

Delete "eliminate the Alaska Science and Technology Foundation"
Insert "not use the Alaska Science and Technology Foundation at this time"

Page 9, line 13:
Delete "former"

Page 9, lines 17 - 18:
Delete "AS 37.17.010, 37.17.020, 37.17.030, 37.17.040, 37.17.050, 37.17.060, 37.17.070, 37.17.080, 37.17.090, 37.17.100, 37.17.110, 37.17.200"
Insert "AS 37.17.200"

Page 9, lines 20 - 21:
Delete "37.17.400, 37.17.410, 37.17.420, 37.17.430, 37.17.440; AS 39.25.110(25); and AS 44.99.030(a)(11)"
Insert "and 37.17.440"

Page 9, line 23, following "appropriation,":
Insert "and notwithstanding AS 37.17.010 - 37.17.110 and 37.17.400 - 37.17.430,"

Page 9, line 24:
Delete "former"

Page 10, lines 7 - 8:
Delete ", as those statutes appeared on the day before the effective date of this Act,"

Page 10, line 8:
Delete "former"

Page 10, line 9:
Delete "former"

Page 10, line 11:
Delete "former"

Page 10, line 13:
Delete "former"

Page 10, line 16:
Delete "AS 37.17.090(g), 37.17.230 - 37.17.330"
Insert "AS 37.17.230 - 37.17.330"

Page 10, line 17, following "Act,":
Insert "and AS 37.17.090(g)"

Page 10, line 19:
Delete "those former statutes"
Insert "AS 37.17.090(g) and former 37.17.230 - 37.17.330, 37.17.350, and 37.17.390"

Page 10, line 21:

Delete "former AS 37.17.090(g)"

Insert "AS 37.17.090(g)"

Page 10, following line 25:

Insert a new subsection to read:

"(e) Notwithstanding AS 37.17.010 - 37.17.110 and 37.17.400 - 37.17.430, the Alaska Science and Technology Foundation is not authorized to have members on its board, to have meetings, to have an executive director or other staff, to receive money unless by appropriation, or to perform any other functions, except as otherwise expressly allowed under this Act."

Co-Chair Williams OBJECTED.

Representative Kerttula explained that the amendment would ensure that the statute would remain on the books to provide a structure for the Foundation if at a future time funding was available.

Co-Chair Williams maintained that it was a legislative policy to eliminate statutes that were not productive. He suggested that if funding became available in the future, statutes could be enacted.

Representative Hawker suggested that the existing statute impeded the success of Alaska Science and Technology Foundation. He proposed that a future structure ought to be reconfigured, since the organization's financial burden was too great to bear. He proposed that the Foundation be allowed to sunset.

Representative Berkowitz observed that the mission of the Alaska Science and Technology Foundation was worthy, although it may have not risen to the satisfaction of the Administration. He suggested that the legislature ought to work on reforms, converting the Alaska Science and Technology Foundation to a manner that satisfied expectations, rather than simply to destroy its infrastructure. He contended that the legislature would one day regret this decision.

Co-Chair Harris noted that the amendment did away with the reason for the bill. He suggested that the bill should not pass if the amendment was supported. Co-Chair Williams also noted the risk involved in venture capital, and suggested that the State was not in the position to take on such risk. He pointed out that the poor in our State were undergoing cuts to social services.

Representative Berkowitz pointed out the risk involved in drilling for oil and gas, upon which our state economy was based. He stated that to avoid risk was in opposition to the economic history of the State. Co-Chair Williams maintained that the money used to take these risks belonged to the oil companies and not to the state of Alaska.

A roll call vote was taken on the motion.

IN FAVOR: Moses

OPPOSED: Chenault; Foster; Hawker; Meyer; Stoltze;
Whitaker; Harris; Williams.

The Amendment FAILED on a vote of 1 to 8.

Representative Foster MOVED to report SB 173 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 173 (efd fld) was REPORTED out of Committee with a "do pass" recommendation and two fiscal notes: #1, zero note, from Department of Community and Economic Development (Alaska Science and Technology Foundation), and #2 from Department of Community and Economic Development (Alaska Industrial Development and Export Authority), (AIDEA).

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ADJOURNMENT

The meeting was adjourned at 9:58 AM