

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**March 06, 2003**  
**9:04 AM**

**TAPES**

SFC-03 # 16, Side A  
SFC 03 # 16, Side B

**CALL TO ORDER**

Co-Chair Gary Wilken convened the meeting at approximately 9:04 AM.

**PRESENT**

Senator Lyda Green, Co-Chair  
Senator Gary Wilken, Co-Chair  
Senator Con Bunde, Vice-Chair  
Senator Robin Taylor  
Senator Ben Stevens  
Senator Donny Olson

**Also Attending:** SHEILA PETERSON, Staff to Co-Chair Wilken; DAN FAUSKE, Chief Operating Officer/Executive Director, Alaska Housing Finance Corporation; LINDA SYLVESTER, Staff to Representative Weyhrauch; KAYE KANNE, President, Midwives Association of Alaska; PAT DAVIDSON, Director, Division of Legislative Budget and Audit; RICK URION, Director, Division of Occupational Licensing, Department of Community and Economic Development;

**Attending via Teleconference:** From an off-net location in Anchorage: PAUL KAPANSKY, Mortgage Operations Director, AHFC

**SUMMARY INFORMATION**

SB 25-AHFC LOANS TO EDUCATORS

The Committee heard from the sponsor and the Alaska Housing Finance Corporation. A committee substitute was considered, two amendments were considered: one was amended and adopted and the other was withdrawn.

HB 71-EXTEND BOARD OF MIDWIVES

The Committee heard from the sponsor and an industry organization.

The bill was held in Committee.

SB 43-EXTEND STATE MEDICAL BOARD

The Committee heard from the sponsor, the Division of Legislative Budget and Audit, and the Department of Community and Economic Development. An amendment was adopted and the bill was reported from Committee.

#SB25

CS FOR SENATE BILL NO. 25(HES)

"An Act relating to the teachers' housing loan program in the Alaska Housing Finance Corporation; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken informed he has prepared a committee substitute for consideration.

SHEILA PETERSON, Staff to Co-Chair Wilken, asserted this legislation "is about recruiting and retaining the best teachers possible for our students." She read the sponsor statement into the record as follows.

Senate Bill 25 establishes a housing loan program within the Alaska Housing Finance Corporation (AHFC) for teachers, counselors, and administrators who are required to be certified. The new teacher-housing loan offered through AHFC permits a qualified applicant to purchase an owner-occupied home without paying a conventional down payment.

This legislation will provide Alaska school districts with a tool to help to attract and keep qualified public school teachers. The recruitment and retention of a qualified workforce is paramount to the operation of a successful K-12 educational program. Unfortunately many school districts are experiencing a shortage of experienced, talented teachers and spend thousands of dollars to recruit the necessary educators. The proposed new housing loan program provides an incentive for trained teachers, counselors, and administrators to enter into the profession and settle down in local communities.

Senate Bill 25 addresses one of the concerns highlighted in the October 2001 "Committee Report on the Statewide Teacher

Shortage" by the House Special Committee on Education. As indicated in this report, the high cost of purchasing a home, or, in some areas of the state, the lack of available teacher housing is a frequent reason for teachers to leave the profession. Senate Bill 25 recognizes this concern and helps facilitate educators to obtain the necessary financing to purchase a home by eliminating the requirement of a down payment. Senate Bill 25 makes a small, but positive step, towards ensuring that Alaska school districts have the best, stable workforce possible.

Senator Taylor moved to adopt CS SB 25, 23-LS0080\Q, Cook, 3/3/03, as a working draft.

Co-Chair Wilken detailed the changes proposed in the committee substitute resulting from discussions of the Senate Health Education and Social Services Committee on this legislation. He stated the committee substitute allows teachers, counselors and administrators to participate in the program only once. He also noted the committee substitute provides that this legislation must be reauthorized in five years to allow review of the program.

AT EASE 9:10 AM / 9:11 AM

Co-Chair Wilken overviewed the information contained in the bill packet, including a report by the AHFC on the shortage of teacher housing, and statements in support of this legislation. [Copies on file] He gave examples of efforts of other states to attract and retain teachers. He noted that not only is the "pool" of qualified teachers smaller, competition from other states for these teachers is increasing.

Senator Bunde commented that signing bonuses have been unsuccessful at retaining qualified teachers. He explained that once the required term of employment has been served as a condition of receiving the bonus, teachers seek employment in another school district to secure yet another signing bonus. He asked how the program would ensure that teachers stay in the residences that these loans were used to purchase.

Co-Chair Wilken understood that once the mortgage is in place it would be difficult to track whether the teacher maintains residency or relocates and collects rental income on the property.

DAN FAUSKE, Chief Operating Officer/Executive Director, AHFC, deferred to Mr. Kapansky.

PAUL KAPANSKY, Mortgage Operations Director, AHFC, testified via

teleconference from an off net location in Anchorage, that once a mortgage is issued the AHFC does not track the occupancy of the residence. He stated that the concern of the Corporation is that the loan payments are made.

Senator Bunde voiced concerns that a teacher could secure the financing, move from the community and become a landlord utilizing the benefit of the subsidized loan.

Mr. Kapansky clarified that this is technically not a subsidized loan but rather allows qualified borrowers to secure a housing loan with no down payment. However he agreed that such a situation could occur.

Senator Bunde asked why other financial institutions require a down payment on the purchase of housing.

Mr. Kapansky replied that some loan programs exist that provide 100 percent financing, but that state statute currently requires AHFC to obtain at least five-percent down payment. He informed that risk of default decreases in instances where borrowers have a vested interest in the property.

Senator Bunde opined that because no down payment is required, this program would be a subsidy. He explained this is due to the increased potential that AHFC could sustain a loss.

Mr. Kapansky responded that the risk is "covered to some extent" by mortgage insurance, which reimburses a percentage of the loss in the event a lender forecloses on a property. He explained the borrower is required to pay the premiums on this insurance.

Mr. Fauske furthered that any loan of 80 percent or greater loan-to-value ratio requires mortgage insurance coverage. He noted that once the 80 percent loan-to-value ratio is reached, the borrower's loan payments are reduced because premiums are no longer collected.

Senator Olson asserted that rural residents do not view housing as investments in the same manner as many urban residents because of the lack of appreciable interest on rural properties. He informed that teachers moving into villages are often faced with substandard housing. He opined that teachers are not normally businesspeople "looking at something from a for-profit perspective". He added that often teachers who have purchased homes in rural communities have suffered a loss when reselling their property.

Senator Taylor referenced language on page 2, line 4 of the committee substitute " A teachers housing loan must be equal to 100

percent of the value of the property for which the loan is made." He asked if loans could be issued only in the amount of 100 percent of the property's market value.

Mr. Fauske understood the language to reiterate that no down payment is required.

Senator Taylor predicted that if an appraisal determined a property to be of a higher value than the market value, the borrower could only secure a loan for the higher value under this program. He also ascertained the language to prohibit the borrower from making a down payment. He suggested "equity to value" or similar terminology.

Mr. Fauske did not interpret the language to prohibit a borrower from making a down payment.

Mr. Kapansky explained the advantage of this program to teachers is the exemption from making a down payment and that this program provides no other benefit to borrowers. He explained that the appraisal or the sales price, whichever is lower, determines the loan-to-value. He suggested the language could be clarified and changed from "must" to "may".

Amendment #2: This amendment deletes "must" and inserts "may" on page 2 line 4. The amended language reads, "A teachers' housing loan may be equal to 100 percent of the value of the property for which the loan is made."

Senator Taylor moved for adoption.

Co-Chair Green objected and pointed out this change would imply that the loan could be issued for more than 100 percent of the value of the property.

Mr. Fauske assured that this would not be practiced due to the Corporation's underwriting criteria. He informed that borrowers could obtain loans in amounts greater than the value for the purpose of make improvements to the property; however borrowers could not receive cash in excess of the value.

Co-Chair Green asked the incentive for a borrower willing to make a down payment.

Mr. Fauske stressed that a borrower could make a down payment if they chose under this program. He reiterated that this would lessen the risk of default as well as shorten the term of the loan. He surmised that if a borrower had a down payment, they might choose a

different AHFC loan.

Co-Chair Green wanted to ensure that this amendment does not provide something that is unintended.

Mr. Kapansky recommended alternate language, "may be made up to 100 percent of the value of the property", which is similar to statutes governing other AHFC loans.

Senator Taylor offered an amendment to the amendment to delete "be equal to" and insert "be no greater than". The amended language reads, "A teachers' housing may be no greater than 100 percent of the value of the property for which the loan is made.

Co-Chair Wilken clarified "value of property" is defined as the sales price or appraisal, whichever is less.

Mr. Fauske deemed this language compatible with the Corporation's underwriting criteria.

Senator Bunde asked for a comparison of interest rates offered by AHFC to that of other lenders.

Mr. Fauske responded that currently, the interest rates for AHFC loans for rural properties are approximately five percent; tax-exempt first-time homebuyers and veterans is 5.38; taxable and taxable first-time homebuyers is 5.5. He commented that the Corporation is "generally competitive" in the lending market for conventional taxable and taxable first-time homebuyers loans.

Senator Bunde commented that the proposed AHFC loans for teachers would have no advantage to qualified borrowers making a down payment.

Senator Bunde asserted that he supports efforts to provide adequate teacher housing in rural Alaska.

There was no objection and the amendment was AMENDED and ADOPTED.

Senator Bunde continued speaking to the fiscal aptitudes of teachers. He concluded that this proposal would not provide a significant subsidy, although the ability to obtain a home loan without a down payment would be an advantage not available to the general public. He was assured that this program would not impact AHFC's "bottom line", nor would it reduce the amount of the dividend the Corporation pays to the State general fund.

Senator Olson asked about the original teachers' loan program in

rural Alaska.

Mr. Fauske replied that the original Housing Assistance Loan Fund (HALF) program began in the middle 1980s was intended to provide teacher housing and was expanded to allow participation by all citizens. He told of difficulties and efforts to provide multi-family housing in rural communities. He noted that loan activity for single-family dwellings occurs "in spurts". He reported little activity of teachers purchasing homes in small villages, stating that the teacher participation in the existing program occurs primarily in larger "hub" communities such as Barrow, Bethel, Kotzebue and Nome. He expressed that the Corporation supports additional efforts to provide housing loans for teachers, as it would provide "business" for the Corporation and housing for teachers.

Senator Olson asked if the witness could suggest changes to the committee substitute to streamline the process of constructing multi-family housing facilities in villages.

Mr. Fauske informed of options under consideration that would be possible if additional federal funding could be secured. He told of the Section 8 voucher certificate program, whereby the federal government subsidizes rental payments to landlords. He described this rental assistance program in which the federal government is no longer constructing large public housing units. He shared that AHFC is participating in this program and told of a test program recently implemented in Barrow to expand the rental market in that community. He qualified that the loan programs could not be utilized in some communities because there is no "inventory" or true real estate market.

Amendment #1: This amendment changes the title of the bill to read as follows.

"An Act relating to the acquisition of teachers' housing by regional educational attendance areas and to teachers' housing loan programs in the Alaska Housing Finance Corporation; and providing for an effective date."

This amendment also inserts a new bill section on page 1 following line 3 to read as follows.

Section 1. AS 14.08.101(9) is amended to read:

(9) provide housing for rental to teachers, by leasing existing housing from a local agency or individual, [OR] by entering into contractual arrangements with a local agency or individual to lease housing that will be constructed

by the local agency or individual for that purpose, or by constructing or otherwise acquiring housing that is owned and managed by the regional educational attendance area for rental to teachers;

New Text Underlined [DELETED TEXT BRACKETED]

This amendment also inserts a new bill section on page 2, following line 6 to read as follows.

Sec. 3. AS 18.56.580(a) is amended to read:

(a) In addition to the powers authorized by AS 18.56.400, the corporation shall adopt regulations under AS 18.56.088 allowing the use of money in the housing assistance loan fund to make loans to regional education attendance areas or other borrowers for the purchase or development of teacher housing in small communities. The regulations must implement the requirements of (b) of this section and establish other terms and conditions for teacher housing loans, including those relating to borrower eligibility and the number of loans that may be made to a single borrower. The corporation may require the borrower to pay costs associated with a loan.

New Text Underlined [DELETED TEXT BRACKETED]

Senator Olson moved for adoption.

Co-Chair Wilken objected for an explanation.

Senator Olson stated the intent of this amendment is to clarify how this legislation would assist teacher housing in rural Alaska. He recalled other legislation considered during the previous legislation session to enhance the retention of teachers and emphasized the need for adequate housing to retain teachers. He proposed that some Rural Education Attendance Area (REAA) districts could participate in this program and construct rental housing for teachers.

Senator Bunde qualified his knowledge of rural Alaska is limited; however, he could not understand the interest to purchase housing in an area where the investment would depreciate. He suggested expanding this provision to apply to urban school districts, although this would be in competition with private industry.

Senator Olson clarified that lack of depreciation on property does not occur in the same manner as in urban areas.

Senator B. Stevens asked the percentage of teachers in rural Alaska

that live in REAA-owned housing units.

Senator Olson did not have an exact figure, but noted that because REAAs are not currently permitted to participate in this program, these school districts have been unable to purchase housing. He stated that instead, teachers have limited availability of housing of private rental units. He told of teachers who must board together and one teacher living in a school boiler room rather than the substandard housing otherwise available.

Co-Chair Wilken stated that the intent of this program is to create the buy-in of a teacher into the community. He asserted that this amendment does not reflect this intent and instead fosters the buy-in of a governmental entity.

Co-Chair Wilken also voiced concerns about repayment of the debt incurred by REAAs for multi-family housing units and asked what revenue stream could support this debt. He listed: grants, federal funds, State funds, and local contributions as possible funding sources. He gave an example of a \$500,000 loan to construct a fourplex unit.

Senator Olson replied that rental income would be used to pay the mortgage on these loans. He stated that there would always be a need for teacher housing and therefore the units would remain occupied, unless the population of the village significantly reduced. He clarified that multi-family dwellings are not typically built in small villages due to the expense of constructing larger facilities. Rather, he said, most housing units are single family or duplexes.

Co-Chair Wilken surmised that rental income would therefore provide the revenue stream for the 15 or 30-year term of the mortgage. He asked the witness if this were viable.

Mr. Fauske asserted that normal underwriting criteria would be applied to any loan application and that consideration is given to rental income, grants and other revenues that could be dedicated to repayment of the loan. He furthered that vacancy rates and rental reserves are also considered.

Co-Chair Wilken asked if education foundation formula funds would be expected to support this debt.

Senator Olson deferred to Mr. Fauske.

Mr. Fauske replied that the AHFC would consider all revenue sources when reviewing a loan application. He informed that a revenue

source based on an annual appropriation would be of concern because of the uncertainty that it would be available each year.

Mr. Fauske also pointed out that in some communities, the school district subsidizes rental payments for teachers. He exemplified Kotzebue and described the leases granted for 12 months although the teachers are only present for 9 months a year. In this instance, he said, the school district pays the remaining three months of rent. He stated this would be a concern in determining the ability of the REAA to meet the loan obligation.

Senator Bunde announced that unless such a housing facility is part of the school itself, he would not support the use of foundation formula funds to pay a mortgage for teacher housing.

Senator Bunde declared that facilities would always experience some vacancy. He voiced concern that unorganized communities without taxing authority would not have an ability to generate funds to offset the absence of sufficient rental income. He suggested this provision should only apply to organized areas.

Senator Olson agreed that complications and potential ramifications could be discussed, but he emphasized, "We all agree that teachers certainly are necessary" for an education system. He remarked that he offered this amendment as a method to attract teachers to rural Alaska.

Co-Chair Wilken requested the sponsor withdraw the amendment and consult with AHFC to determine whether, and how, this loan program could be extended to REAAs while guaranteeing that no foundation formula funding would be used in the repayment of the debt.

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Co-Chair Wilken continued, declaring "In no way will foundation money be used to support this type of an effort until the local contribution on behalf of these people is put in place."

Senator Olson WITHDREW his motion to adopt the amendment without objection.

Co-Chair Green spoke to her opposition of the bill. She pointed out that this legislation does not require that an area demonstrate a need for teachers, nor does it require that a borrower under this program continue to teach. She furthered that the provision does not include a first time buyer requirement, an "age factor" or a

maximum loan amount. She opined, "If this is good for young teachers coming into a community, it's good for the young people who have graduated from a voc-tech school, nurses or a whole rash of other people."

Co-Chair Wilken ordered the bill HELD in Committee.

[Note: Remainder of meeting is recorded on SFC-03 #16-II.]

#HB71

HOUSE BILL NO. 71

"An Act extending the termination date of the Board of Certified Direct-Entry Midwives."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken explained the legislation as follows.

House Bill 71 extends the Board of Certified Direct-Entry Midwives four years to June 30, 2007. The extension matches the Division of Legislative Budget and Audit's recommendation.

LINDA SYLVESTER, Staff to Representative Weyhrauch, sponsor of the bill, informed that all of the Representative's children were born using the services of a direct-entry midwife. Ms. Sylvester read a statement as follows.

The Board has served as a means to make people practicing midwifery aware of the level of experience and education that is expected of them. The State of Alaska women seeking an alternative to hospital care for a normal pregnancy and birth rely on the diligence of the Board to enhance both the quality and accessibility of their health care.

Based on the recommendations of legislative audit, the Board is operating well and it should be extended.

The regulation and licensure of direct-entry midwives contributes to the protection of the public's welfare.

Ms. Sylvester asserted that the members do not oppose the high licensure fees, as they realize they are small group. She stated that the Board should not be merged with a board representing another medical profession for the sole purpose of lowering the license fees.

Senator Taylor supported the bill and indicated he had reviewed the audit report. He offered a motion to report the bill from Committee.

KAYE KANNE, President, Midwives Association of Alaska, testified that she served on the Board for two terms beginning with its inception in 1992. She remarked that the Board has "done an excellent job." She informed that when the Board was first created, the certified direct-entry midwives performed a "very small" percentage of the births in Alaska and that currently midwives are attending almost ten percent of the births. She pointed out that in some areas, this percentage is higher: 25 percent of births in the Mat-Su Borough, 16 percent in Juneau, and 12 percent in Fairbanks. She reported "very low" incidences requiring cesarean-section delivery and overall, "really good outcomes for mothers and babies and a very low cost to the State."

Ms. Kanne reminded that in 1998, midwifery services have been eligible for Medicaid coverage and attested this is less costly for the State.

Senator Olson asked the licensure fee.

Ms. Kanne listed \$1,350 as the fee for a two-year license. She compared this to the original fee of \$1,500 and the \$950 fee of two years ago.

Senator Olson asked if any actions have been taken against a licensee.

Ms. Kanne told of one investigation of unlicensed activities and another investigation pending. She did not have details of the on-going instance.

Senator Olson asked if action would be taken against a person attending to a home birth for a family member or friend.

Ms. Kanne assured that this activity is legal and indicated that statutes specifically protect Native and cultural birthing practices. She stated that the Board and licensure is intended for modern-day midwives.

Senator Olson wanted to ensure that health aides operating in smaller communities are "free from prosecution to a certain degree."

Co-Chair Wilken referenced page 11 of the Division of Legislative

Budget and Audit report, "The Board believes it is in the profession's and the public's best interest to require all CDM applicants and renewals to pass an exam on State statutes and regulations applicable to the profession." He noted that such a provision is not included in this legislation and asked if the witness would prefer one.

Ms. Kanne explained that the Board supports a jurisprudence requirement, although the consensus of the Association is to request this in separate legislation along with other "housekeeping" items. She clarified she would not object if the provision were added to this bill.

Co-Chair Wilken commented that extension of lapse dates of boards and commissions is partially intended as an opportunity to make changes such as proposed in the audit. He requested the sponsor and the witness collaborate with Finance Committee staff to incorporate the "housekeeping" matters into this bill.

Senator Taylor WITHDREW his motion to report the bill from Committee without objection.

Co-Chair Wilken ordered the bill HELD in Committee.

#SB43

SENATE BILL NO. 43

"An Act extending the termination date of the State Medical Board."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken read an explanatory statement as follows.

Senate Bill 43 extends the State Medical Board eight years to June 30, 2011. This extension matches the Division of Legislative Budget and Audit's recommendation.

PAT DAVIDSON, Director, Division of Legislative Budget and Audit, explained the unusual request to extend the term of the Board for eight years. She told of the previous eight-year extension and noted that the Board did not wait until the lapse date renewal to proceed with changes, which was beneficial to the operation of the Board.

Senator Taylor asked number of licensed the Board has revoked and

"at what level" the Board is conducting investigations.

Ms. Davidson indicated she would provide the number of revoked licenses. She stated that it is difficult to evaluate the amount of time spent on investigations of each occupation board because the Division of Occupation Licensing retains investigative staff, which is not assigned to one particular board. Therefore, she explained the amount of time allocated to individual investigations is weighed against the priorities of all the boards.

Senator Taylor commented that the Alaska Bar Association could provide the exact details on investigations and the number of attorneys disciplined or disbarred. He ascertained from discussions with members of the State Medical Board that the Board does not revoke medical licenses. He expressed interest in learning "how long and how deep the old boys club runs in Alaska."

Senator Olson assured that the Board has taken licensure action in the recent past.

Senator Bunde told of two high profile cases involving revocation of licenses for doctors practicing in the Anchorage area.

Senator B. Stevens referenced page 11 of the Division of Legislative Budget and Audit, which listed 413 investigations and the number of cases closed in the last three years.

Ms. Davidson interjected to point out that multiple complaints are sometimes reported against one physician.

RICK URION, Director, Division of Occupational Licensing, Department of Community and Economic Development, testified in support of the bill. He stressed that the Board does revoke licenses and that many investigations are ongoing with actions pending. He noted that the two Division investigators dedicated to matters relating to the medical field handle 60 percent of the Division's investigations. He asserted, "We are overloaded." He told of time delays in the investigative process and efforts to reduce these delays.

Mr. Urion remarked that the State Medical Board "has done a very good job." He compared the Division's office size and condition in Anchorage to the considerably larger Alaska Bar Association offices.

Senator Bunde asked the cost of a State medical license. He assumed the fee is based on the cost of investigations of the Board.

Senator Olson answered the cost of a license is currently \$600.

Mr. Urion furthered that statute requires that the fee be based on a two-year average of investigative expenses. He noted that the investigation activities have been considerable higher than average in the past year and the Board is subsequently \$90,000 over-budget. He anticipated this would "average out" over the next year or license fees would be increased.

Senator Bunde asked the process to obtain additional staff and better facilities if necessary.

Mr. Urion responded that such changes could not be implemented during the current fiscal year, but stressed that improvements must be done eventually as the system is "bogged down".

Senator Bunde wanted to know if these improvements could be made without impacting the State general fund.

Mr. Urion affirmed the intent is to increase license fees to cover the additional expenses.

Senator Taylor commented that the physicians would "have the amount of enforcement that they want to pay for."

Amendment #1: This amendment changes the termination date of the State Medical Board from 2011 to 2007.

Senator Olson moved for adoption.

Co-Chair Wilken objected for an explanation.

Senator Olson relayed that as a member of the State Medical Board, he identified areas in need of improvement. He told of changes made the previous session to the locum tenens law intended to streamline the process to attract and retain additional physicians to Alaska. He wanted an opportunity to measure the success of these efforts after a four-year period.

Mr. Urion favored the later termination date. He pointed out that the boards are always subject to legislative evaluation and that audits could be ordered at any time.

Senator B. Stevens asked if the locum tenens law could be reviewed in four years without requiring an extension of the Board.

Senator Olson replied that the locum tenens law is only one of the issues that must be reviewed, citing the witness's indications that

the investigative process needs improvement.

Senator Bunde supported the amendment due to the workload of the Legislature each year. He predicted that unless the termination date requires an extension, the review of these related matters could be overlooked.

Co-Chair Wilken asserted that he supports the amendment because Senator Olson, a physician, recommends that this is in the best interest of the people of Alaska.

Senator B. Stevens asked if the Board has issued an official position on the preferred length of the extension date.

Senator Olson did not. He informed that the Board membership is undergoing transition.

Co-Chair Wilken predicted that if the Board opposes the amended extension date, testimony could be presented as House of Representatives committees consider the bill. He removed his objection to the adoption of the amendment.

The amendment was ADOPTED without objection.

Senator Taylor offered a motion to report SB 43 as amended from Committee.

There was no objection and CS SB 43 (FIN) MOVED from Committee with individual recommendations and accompanying \$729,700 fiscal note #1 from the Department of Community and Economic Development.

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**ADJOURNMENT**

Co-Chair Gary Wilken adjourned the meeting at 10:24 AM