

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

February 3, 2004

3:40 p.m.

TAPE (S) 04-2

MEMBERS PRESENT

Senator Gary Stevens, Chair
Senator Bert Stedman
Senator Gretchen Guess

MEMBERS ABSENT

Senator John Cowdery, Vice Chair
Senator Lyman Hoffman

COMMITTEE CALENDAR

2d CS FOR HOUSE BILL NO. 288(RLS)

"An Act changing the name of the Department of Community and Economic Development to the Department of Commerce and Community and Economic Development."

MOVED SCS 2d CSHB 288(STA) OUT OF COMMITTEE

SENATE BILL NO. 270

"An Act establishing November as Avalanche Awareness Month."

MOVED SB 270 OUT OF COMMITTEE

SENATE BILL NO. 279

"An Act authorizing and relating to the issuance of bonds by the Alaska Housing Finance Corporation for safe and clean water and hygienic sewage disposal facility capital projects and other capital projects; providing for the repayment of the bonds and bond costs; relating to the dividend paid to the state by the Alaska Housing Finance Corporation; and providing for an effective date."

HEARD AND HELD

PREVIOUS ACTION

BILL: HB 288

SHORT TITLE: CHANGING NAME OF DEPT OF COMM & ECON DEV.

SPONSOR(S): REPRESENTATIVE(S) KOHRING

04/28/03 (H) READ THE FIRST TIME - REFERRALS

04/28/03 (H) STA, L&C
 05/06/03 (H) STA AT 8:00 AM CAPITOL 102
 05/06/03 (H) Moved CSHB 288(STA) Out of Committee
 05/06/03 (H) MINUTE(STA)
 05/08/03 (H) STA RPT CS(STA) NT 3DP 1DNP 3NR
 05/08/03 (H) DP: DAHLSTROM, LYNN, HOLM;
 05/08/03 (H) DNP: BERKOWITZ; NR: SEATON, GRUENBERG,
 05/08/03 (H) WEYHRAUCH
 05/08/03 (H) CRA REFERRAL ADDED AFTER L&C
 05/09/03 (H) L&C AT 3:15 PM CAPITOL 17
 05/09/03 (H) Moved CSHB 288(STA) Out of Committee
 05/09/03 (H) MINUTE(L&C)
 05/10/03 (H) L&C RPT CS(STA) NT 3DP 1NR 2AM
 05/10/03 (H) DP: GATTO, DAHLSTROM, LYNN;
 05/10/03 (H) NR: ROKEBERG; AM: CRAWFORD, GUTTENBERG
 05/13/03 (H) CRA RPT CS(STA) NT 2DP 3NR
 05/13/03 (H) DP: WOLF, KOTT; NR: SAMUELS, CISSNA,
 05/13/03 (H) MORGAN
 05/13/03 (H) CRA AT 8:00 AM CAPITOL 124
 05/13/03 (H) Moved CSHB 288(STA) Out of Committee
 05/13/03 (H) MINUTE(CRA)
 05/16/03 (H) RETURNED TO RLS COMMITTEE
 05/19/03 (S) L&C AT 8:00 AM BELTZ 211
 05/19/03 (S) <Above Item Removed from Agenda>
 05/19/03 (S) MINUTE(L&C)
 01/20/04 (H) RLS AT 9:30 AM BELTZ 211
 01/20/04 (H) Moved 2d CSHB 288(RLS) Out of Committee
 01/20/04 (H) MINUTE(RLS)
 01/21/04 (H) RLS RPT 2D CS(RLS) NT 2DP 1DNP 2NR
 01/21/04 (H) DP: COGHILL, ROKEBERG; DNP: KERTTULA;
 01/21/04 (H) NR: MCGUIRE, KOTT
 01/21/04 (H) TRANSMITTED TO (S)
 01/21/04 (H) VERSION: 2D CSHB 288(RLS)
 01/23/04 (S) READ THE FIRST TIME - REFERRALS
 01/23/04 (S) STA, L&C
 02/03/04 (S) STA AT 3:30 PM BELTZ 211

BILL: SB 270

SHORT TITLE: AVALANCHE AWARENESS MONTH
 SPONSOR(s): SENATOR(s) GREEN

01/16/04 (S) READ THE FIRST TIME - REFERRALS
 01/16/04 (S) STA
 02/03/04 (S) STA AT 3:30 PM BELTZ 211

BILL: SB 279

SHORT TITLE: AHFC WATER & SEWER BONDS/DIVIDEND

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/23/04 (S) READ THE FIRST TIME - REFERRALS
01/23/04 (S) STA, FIN
02/03/04 (S) STA AT 3:30 PM BELTZ 211

WITNESS REGISTER

Representative Vic Kohring
Alaska State Capitol
Juneau, AK 99801-1182
POSITION STATEMENT: Sponsor HB 288

Commissioner Edgar Blatchford
Department of Community & Economic Development
PO Box 110800
Juneau, AK 99811-0800
POSITION STATEMENT: Supported HB 288

Jacquilin Tupou
Aide to Senator Lyda Green
Alaska State Capitol
Juneau, AK 99801-1182
POSITION STATEMENT: Introduced SB 270 for sponsor

Bryan Butcher
Alaska Housing Finance Corporation
PO Box 101020
Anchorage, Alaska 99510
POSITION STATEMENT: Testified in support of SB 279

Joe Dubler
Alaska Housing Finance Corporation
PO Box 101020
Anchorage, Alaska 99510
POSITION STATEMENT: Testified in support of SB 279

ACTION NARRATIVE

TAPE 04-2, SIDE A

CHAIR GARY STEVENS called the Senate State Affairs Standing Committee meeting to order at 3:40 p.m. Present were Senators Stedman, Guess and Chair Gary Stevens.

2d CSHB 288(RLS)-CHANGING NAME OF DEPT OF COMM & ECON DEV.

CHAIR GARY STEVENS announced 2d CSHB 288(RLS) to be up for consideration and invited Representative Kohring to introduce the bill.

REPRESENTATIVE VIC KOHRING, sponsor, explained that this legislation changes the name of the Department of Community and Economic Development to the Department of Commerce, Community and Economic Development. He said adding the word "commerce" more completely describes the mission of the department because it is not only engaged in promoting strong communities and developing the economy, it is also involved in things that are commerce related. Changing the name lets other areas know that the State of Alaska is open for business and has commerce.

CHAIR GARY STEVENS asked if the latest bill version is \H.

REPRESENTATIVE KOHRING said that is correct.

CHAIR GARY STEVENS commented that it makes sense to be the Department of Commerce, Community and Economic Development, but in the title and throughout the bill there is an "and" rather than a comma between Commerce and Community. He noted the sponsor omitted the first "and" and asked him which title he preferred.

REPRESENTATIVE KOHRING replied he preferred the comma, but the House Rules Committee didn't agree. He said it reads more clearly with a comma instead of the first "and."

CHAIR GARY STEVENS agreed and asked for other comments.

SENATOR GRETCHEN GUESS agreed there was no reason for the first "and."

CHAIR GARY STEVENS asked for a motion.

SENATOR GUESS made a motion to delete the word "and" following "Commerce" and replace it with a comma on page 1, lines 2, 8 and 11 and on page 2 lines 4 and 5.

There was no objection and the motion passed.

COMMISSIONER EDGAR BLATCHFORD, Department of Community & Economic Development thanked the committee and said he appreciates the effort to change the name of the department because it is more in keeping with how Alaskans think of the

department. There are two major responsibilities with the new name change. Those are commerce and community development.

SENATOR GUESS made a motion to move SCS 2d CSHB 288(STA) from committee with individual recommendations and the attached fiscal note. There being no objection, it was so ordered.

SB 270-AVALANCHE AWARENESS MONTH

CHAIR GARY STEVENS announced SB 270 to be up for consideration.

JACQUILIN TUPOU, staff to Senator Lyda Green, sponsor of SB 270, informed members that this issue was before the committee last year in resolution form and this year it is a bill. The legislation would establish each November as Avalanche Awareness Month.

Every year more people are lost to avalanches in Alaska than in any other state. In fact, 28 Alaskans have died in avalanches during the previous four winters. She reported that there were many people who have worked hard on this issue and were willing to testify in support of the legislation. However, in the interest of simplicity, they ask the committee to pass the bill quickly.

CHAIR GARY STEVENS thanked Ms. Tupou and said he was pleased to see that this was in bill form and that every November would be Avalanche Awareness Month. He noted that the chart in member's packets indicate that 27 percent of the avalanche fatalities between 1998 and 2002 have been from Alaska and that 62 percent were snowmachiners, which shows the importance of safety education.

He asked for a motion.

SENATOR GRETCHEN GUESS made a motion to pass SB 270 from committee with individual recommendations and attached fiscal note. There being no objection, it was so ordered.

SB 279-AHFC WATER & SEWER BONDS

CHAIR GARY STEVENS announced SB 279 to be up for consideration. He invited Brian Butcher and Joe Dubler to come forward.

BRIAN BUTCHER, legislative liaison Alaska Housing Finance Corporation (AHFC), explained that SB 279 authorizes \$25 million in bonds to be sold by AHFC primarily to fund village safe water

projects in the FY 05 Capital Budget. He noted that the bill would authorize other capital projects as well.

MR. BUTCHER made three points. First, based on current interest rates, the estimated debt service on the bonds would be about \$3 million per year for a 10 year period. Second, the debt service payments would come from AHFC's annual dividend to the state and SB 279 would amend the statute to include the bonds. Finally, rating analysts indicate that the AHFC's ratings would not be negatively impacted by this bond sale.

CHAIR GARY STEVENS referred to pages 3 through 5 of the bill where dividend calculations in FY04 through FY08 are addressed and noted that SB 279 calls for a 10 year payoff. He asked for clarification.

MR. BUTCHER explained that HB 256, which placed AHFC dividend payments into statute, was signed into law in 2003. The current AHFC bond debt service payments were listed in that legislation and those payments are subtracted from the dividend, which gives some idea of how much the state would actually receive. SB 279 adds the proposed 10 year bonds to that.

JOE DUBLER, chief financial officer, Alaska Housing Finance Corporation, further clarified:

Section 4 that you're referring to there is the phase in of the dividend plan. Section 2 begins with 75 percent after the phase in period, and I believe it's FY09. It would kick in to 75 percent of the corporation's net income and that would go on indefinitely. So, Section 2 would carry forward after FY09 for the remainder term of the bonds.

CHAIR GARY STEVENS asked if it is correct that the bonds would be paid off in 10 years.

MR. BUTCHER and MR. DUBLER both agreed that is correct.

SENATOR GRETCHEN GUESS asked if AHFC bonds now and if so, what they bond for.

MR. DUBLER replied they bond for mortgage loans primarily, but AHFC has a number of programs: single family and first time home buyer program; veteran's mortgage program; multi family purchase program for both low and moderate income projects as well as regular taxable projects; and beginning in 1992, tax exempt

bonds for state capital projects similar to the current proposal.

SENATOR GUESS asked how the proposed bonding might impact the ability to bond in the future.

MR. DUBLER pointed to Mr. Butcher's third point and replied they don't believe that there would be any impact. Three rating agencies rate the bonds and Standard and Poor's and Moody's weren't too concerned with the additional bond issue of \$25 million. Fitch, which has the highest of the three ratings at AA+, was moderately concerned, but he and Mr. Butcher convinced them it wouldn't be a problem for the corporation.

SENATOR GUESS acknowledged that the ratings might not be impacted, but questioned whether AHFC might not have a quantity cap. Would SB 279 affect the corporation's future ability to bond for more typical AHFC projects?

MR. DUBLER replied he didn't believe so because there is a difference in what the bond proceeds are used for. For the mortgage program, if AHFC sells \$100 million in bonds, they typically buy \$100 million worth of mortgage loans. That is a structured financing and is a self-paying bond transaction. The current proposal is a different type of structure. It is referred to as a general obligation bond issue and it is based on the corporation's working capital in the corporation's general account. This structure includes the state capital bonds and there are no assets, such as a mortgage pool, pledged to pay the bonds off. The corporation's ability to issue bonds for state capital projects as in SB 279 would be affected, but it wouldn't affect the corporation's ability to bond for mortgage programs.

SENATOR GUESS asked what asset basis is for the proposed bonds.

MR. DUBLER replied there is just the corporation's general account; there would be no assets, such as a mortgage pool, pledged to pay off the proposed bonds. He reiterated, the corporation's bonding ability for capital projects would be impacted, but not their ability to bond for mortgage programs.

SENATOR GUESS asked what assets the proposed bonds are based on and whether it is property the corporation owns.

MR. DUBLER said AHFC is bonding against the corporation's general account. He said:

If you look at our financial statements, the revolving fund that the corporation - our unrestricted assets is what it is. Basically, what this does is, we're forward funding the dividend for 10 years. We're taking..."

SENATOR GUESS finished his sentence saying, "taking future general fund money to bond, which is how it's going to come out at \$3 million."

MR. DUBLER agreed.

SENATOR GUESS asked if there is a reason why the fiscal note is zero and doesn't show the \$3 million.

MR. BUTCHER replied the fiscal note shouldn't say zero. AHFC submitted a fiscal note to the Department of Revenue and the Office of Management and Budget and they were informed that a zero fiscal note had already been submitted. AHFC was subsequently informed that a corrected fiscal note had been submitted and he wasn't aware that the committee didn't have the new information.

CHAIR GARY STEVENS confirmed he had not received a corrected fiscal note.

SENATOR GUESS asked how water and sewer projects are paid for at this time.

MR. BUTCHER said the AHFC dividend has been used for the last 5 or 6 years.

SENATOR GUESS questioned whether that was through the general fund process in the capital budget.

MR. BUTCHER said yes, using AHFC dividends.

SENATOR GUESS then asked whether there is a list of projects that would be funded with the proposed bonds.

MR. BUTCHER explained that nearly \$20 million of the total \$25 million is dedicated to village safe water projects and the rest is dedicated to other capital projects.

SENATOR GUESS read from page 1, line 31 to page 2, line 2 of the bill and noted that "other capital projects" were included.

[Committee members were provided with a list of the \$25 million in proposed projects.]

SENATOR GUESS reviewed the list and asked how deferred maintenance and the purchase of sonar equipment fits in.

MR. BUTCHER replied those items come under "other capital projects" as stated on page 1, line 31 and page 2, line 1.

SENATOR GUESS questioned why the administration included village safe water in the bill language if "other capital projects" is included as well. There is no guarantee for any particular project if "other capital projects" is included.

MR. BUTCHER explained that when AHFC began working with the governor's office, the corporation discussed bonding for the same village water projects that they had been funding with AHFC dividends. At that point, the administration made the decision where the funds would go and then the Department of Law changed the legislation to include "other capital projects."

CHAIR GARY STEVENS noted that the list shows that some \$19 million of the \$25 million would go for village safe water.

SENATOR GUESS agreed that's what the list shows, and that was her point. How could they know for certain that this is how the money would be used? She recalled that, "All the schools that were on the general obligation (GO) bond last year - some of them, the administration decided to take off the GO package after the voters approved it."

MR. BUTCHER explained that this is how it is coded into the capital budget and "if the project is funded under AHFC bond proceeds in the capital budget, they would have to come up with a new funding source to fill that hole."

MR. DUBLER continued to say that they have done close to \$500 million dollars in state capital projects and they have yet to have a project that was approved in a bill similar to SB 279 that wasn't funded with AHFC bonds.

SENATOR GUESS said the capital projects aren't listed in the bill and she is extremely concerned about the broad language in the bill because there is no assurance that any money would, in fact, go to village safe water. The bill opens use of the \$25 million to any capital project.

MR. BUTCHER agreed that she is correct, but it is his understanding that, "and the whole genesis of the bill was that it would be used for village safe water projects. But you're right, an appropriation bill ultimately decides how it is spent and regardless of what we put in this bill, it wouldn't tie the appropriation bill to it."

SENATOR GUESS asked if removing, "and other capital projects" would ensure that the money would go to village safe water.

MR. BUTCHER replied he believes that is correct.

SENATOR GUESS stated that she appreciates creative financing, but this bill is about safe water and everyone has agreed that this is something that needs to be done as a state and this legislation invites hijacking in years to come. She concluded, "If we're going to take care of village safe water, I think we should do that."

CHAIR GARY STEVENS said he understands her concerns. To clarify the issue further, he asked for confirmation that these bonds would affect the dividend to the state. [He received a nod.] He asked if there were other bonds that already affect the dividend.

MR. DUBLER replied he is not aware of any other AHFC bond proposal in this session.

CHAIR GARY STEVENS asked about bond sales in previous years.

MR. DUBLER said there have been others and those are the ones referred to earlier in Section 2.

SENATOR GUESS added, "But not for projects outside of AHFC."

MR. DUBLER disagreed and said those were all capital projects. He repeated that AHFC has bonded for nearly \$500 million in capital projects including rural schools, ports and harbors, the Atwood Building in Anchorage, and others.

SENATOR BERT STEDMAN agreed that Senator Guess brought up good points. He then noted that the fiscal note is inaccurate because the cost would be \$3 million and this would be a 10 year GO bond. He asked what the estimated yield might be.

MR. DUBLER replied AHFC understandably uses conservative assumptions, but the projected interest rate is a 3.95 yield on the entire issue. He noted that is higher than the current rate.

SENATOR STEDMAN agreed that village safe water is well worthwhile and it's a good idea to issue bonds when rates are low.

He referred to the broad language in the bill then reviewed the list of capital projects including the purchase of sonar equipment and said he assumes the life of the equipment would be at least 10 years.

MR. BUTCHER said this legislation limits the bonds to \$25 million and the governor's office decided how the funds would be used. However, AHFC made it clear that the bonds needed to be used for capital projects and they needed to extend beyond the life of the bonds. The governor's office understands the parameters.

SENATOR STEDMAN noted that it is clear that there are deferred maintenance issues in the state. However, when the state is making a concerted effort to address sanitation issues in the rural communities, it would be more clear-cut if the two issues weren't mixed. This is particularly important when trying to communicate with the public. He concluded that perhaps projects were mixed in the past, but he senses that there are reservations now.

MR. BUTCHER said that projects have been mixed and they range from ports and harbors to schools. "Whatever was needed in a bond bill when it was put together."

SENATOR STEDMAN remarked that everyone could come up with a list of capital projects that are needed, so it is important that the intent of this legislation isn't substantially modified or derailed.

SENATOR GUESS asked how much more money is needed to finish safe water.

MR. BUTCHER admitted that they don't have a list. AHFC spoke to Department of Environmental Conservation (DEC), but they didn't produce a list, if in fact they have one. SB 279 would cover the village safe water projects needed to match the federal funding for FY05.

SENATOR GUESS asked if sewage falls under safe water.

MR. BUTCHER replied he thought it did.

SENATOR GUESS asked if the \$500 million in bonding he referred to earlier was through the bill process.

MR. DUBLER said it was and it is referred to in SB 279. He remembered SB 360, HB 281, and HB 287 were related.

SENATOR GUESS said she would like to amend the bill to delete reference to "and other capital projects."

CHAIR GARY STEVENS said he could sense the discomfort with the bill, but he wasn't prepared to accept an amendment at that time. He said he would prefer to hold the bill for further consideration and additional information. Certainly, a corrected fiscal note was in order and the question about other safe water projects is important information to get from DEC. He asked her to withdraw her motion to amend.

SENATOR GUESS said she would withdraw her motion, but she wasn't confident that the issues would be solved. If the administration wants additional projects included then she would like them listed specifically because including "other capital projects" is irresponsible. She admitted she isn't enthused to bond outside of AHFC in any case, but leaving the language open indicates, "We're not doing our jobs."

SENATOR GUESS withdrew her motion as a favor to the Chair.

CHAIR GARY STEVENS said he could see her point.

SENATOR STEDMAN noted that much in this bill is finance related and he assumes that the Finance Committee would be apprised of the concerns raised here.

CHAIR GARY STEVENS said he understands and he was sure the Finance Committee would scrutinize the issue carefully.

He announced he would hold SB 279 in committee.

CHAIR GARY STEVENS adjourned the meeting at 4:15 pm.