

HOUSE FINANCE COMMITTEE  
March 12, 2008  
1:47 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:47:45 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Harry Crawford  
Representative Les Gara  
Representative Mike Hawker  
Representative Mike Kelly  
Representative Mary Nelson  
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative John Harris  
Representative Reggie Joule

ALSO PRESENT

Eleanor Wolfe, Staff, Representative Kurt Olson; Mark Davis, Director, Division of Corporations, Business, Professional Licensing, Department of Commerce, Community and Economic Development; Dave Feekan, Alaska Association of Realtors; Gene Duval, Chair, Alaska Real Estate Commission; Sarah Fisher-Goad, Deputy Director of Operations, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Chris Anderson, Deputy Director of Credit, Alaska Energy Authority; Del Conrad, CEO, Rural Alaska Fuel Services; Jane Pierson, Staff, Representative Jay Ramras.

PRESENT VIA TELECONFERENCE

Susan Browne, Administrator, Violent Crimes Compensation Board.

SUMMARY

HB 338      An Act relating to the power project fund and the bulk fuel revolving loan fund; authorizing the Alaska Energy Authority to borrow money from the power project fund for the bulk fuel revolving loan fund and to repay money borrowed; and providing for an effective date.

CS HB 338 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new zero fiscal note by the Department of Commerce, Community and Economic Development and new fiscal note by the Department of Commerce, Community and Economic Development.

HB 356 An Act relating to an exemption from municipal property taxes for certain real property that is exempt from levy and collection of real property taxes when conveyed by the federal government to implement the Alaska Native Claims Settlement Act or when conveyed under a land exchange authorized by that Act involving land or an interest in land that is made exempt from local property taxes by that Act; and providing for an effective date.

CS HB 356 (CRA) was REPORTED out of Committee with a "do pass" recommendation and with attached zero fiscal note by the Department of Commerce, Community and Economic Development.

HB 357 An Act requiring errors and omissions insurance for real estate licensees; renaming the real estate surety fund as the real estate recovery fund and relating to that fund, and redefining the procedures and criteria used by the Real Estate Commission to make an award from the fund to a person suffering a loss caused by certain misconduct of real estate licensees; requiring a real estate licensee to maintain an office in the state; and providing for an effective date.

CS HB 357 (L&C) was REPORTED out of Committee with a "do pass" recommendation and with attached zero fiscal note #1 by Department of Commerce, Community and Economic Development and zero fiscal note #2 by Department of Commerce, Community and Economic Development.

HB 414 An Act relating to the crime victim compensation fund.

HB 414 was REPORTED out of Committee with a "do pass" recommendation and with attached zero fiscal note #1 by the Department of Administration.

HOUSE BILL NO. 357

An Act requiring errors and omissions insurance for real estate licensees; renaming the real estate surety fund as the real estate recovery fund and relating to that fund, and redefining the procedures and criteria used by the Real Estate Commission to make an award

from the fund to a person suffering a loss caused by certain misconduct of real estate licensees; requiring a real estate licensee to maintain an office in the state; and providing for an effective date.

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ELEANOR WOLFE, STAFF, REPRESENTATIVE KURT OLSON (SPONSOR), informed the Committee that HB 357 was introduced at the request the Alaska Association of Realtors. The legislation is intended to mandate errors and omissions (E&O) insurance for real estate agents. The bill would also change the nature of the surety fund to a recovery fund that would be used if there is fraud or deceit. The E&O insurance would cover the majority of the complaints people now have against the surety fund.

Representative Kelly asked if anyone was opposed to the bill. Ms. Wolfe said there had not been a lot of opposition.

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MARK DAVIS, DIRECTOR, DIVISION OF CORPORATIONS, BUSINESS, PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that HB 357 is in response to a 2007 legislative audit of the Alaska Real Estate Commission. The audit recommended that the Commission be continued and recommended changes in the surety fund. The fund has had difficulty providing consumers with protection. Other states have moved towards the mandatory E&O insurance proposed in HB 357. The policy would provide uniform protection for all realtors. The bill does not go into effect if a reasonable policy cannot be found.

Representative Thomas noticed that the bill requires realtors obtaining a real estate license to have physical offices in the state and asked if that had been a problem.

DAVE FEEKAN, ALASKA ASSOCIATION OF REALTORS, clarified the reason for changing the surety fund. The fund was put in place in 1974 in place of bonding. The fund is a self-funded program that covers fraud, deceit, misrepresentation, and conversion of trust. The fund has \$250,000 to \$500,000 by statute, but has been declining. In the past two years there have been an inordinate number of frivolous claims filed with resulting high administrative costs. Mandatory insurance would deal with some of the claims.

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Mr. Feekan said the goal of the language is not restraint of business but supervision and record-keeping. A person can get a real estate license after only a forty-hour course and passing a test. This person then handles one of the largest

financial transactions of most people's lives. The bill requires the licensee to have an office so that they can be supervised and keep the required records.

Representative Crawford asked the difference in cost for E&O insurance and paying into the surety fund. Mr. Feekan did not think the surety expense would change from its current cost of \$30 every two years. Judging from the cost in other states, the insurance cost would be approximately \$150-200 per individual (as part of a group policy), for \$100,000 coverage/\$1,000 deductible. The majority of E&O claims are less than \$10,000.

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Representative Gara turned to page 9, line 12, and asked why the word "misrepresentation" was taken out. He wanted to make sure the legislation was not making it harder for someone who had been defrauded by a real estate agent to recover. Mr. Feekan did not know why it was taken out. Representative Gara asked if he would be comfortable leaving the word in. Mr. Feekan said the industry would not have a problem with that. Ms. Wolfe said she would get more information.

GENE DUVAL, CHAIR, ALASKA REAL ESTATE COMMISSION, spoke in support of the bill. The Commission believes the changes will better protect the public and close loopholes. They thought the requirement of an office in the state was important because of the internet realtors, which are hard to supervise.

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PUBLIC TESTIMONY CLOSED.

Vice-Chair Stoltze MOVED to report HB 357 out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CS HB 357 (L&C) was REPORTED out of Committee with a "do pass" recommendation and with attached zero fiscal note #1 by Department of Commerce, Community and Economic Development and zero fiscal note #2 by Department of Commerce, Community and Economic Development.

HOUSE BILL NO. 338

An Act relating to the power project fund and the bulk fuel revolving loan fund; authorizing the Alaska Energy Authority to borrow money from the power project fund for the bulk fuel revolving loan fund and to repay money borrowed; and providing for an effective date.

Vice-Chair Stoltze MOVED to ADOPT work draft 25-LS1332\E, Kane, 2/22/08, as the version of the bill before the Committee. There being NO OBJECTION, it was adopted.

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REPRESENTATIVE MARY NELSON, SPONSOR, explained that the bill would allow the Alaska Energy Authority (AEA) to borrow from the Power Project Fund (PPF) for use in the Bulk Fuel Revolving Loan Fund (BFRLF). The PPF has a balance of \$10.8 million. Due to the ever-increasing cost of energy throughout the state, especially in remote rural villages, the ability of AEA to offer loans has been hindered because larger loans are required to buy the same quantity of fuel.

Representative Nelson said that Rural Alaska Fuel Services is often asked to provide loans to communities that would otherwise be unable to get loans. The payback rate is 100%. Although the bridge loan program has been functioning well since 2004, HB 338 is necessary because there is no statutory authorization for AEA to operate the program. Communities have struggled to purchase bulk fuel because of significant decreases in or total elimination of municipal assistance and revenue sharing. The loans help communities purchase fuel at the beginning of the cold season. The fiscal note is small and for contractual services. The Department of Commerce, Community and Economic Development is optimistic that the demand for the program will fall with the reinstatement of state revenue sharing (Statement on File).

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Co-Chair Meyer opened public testimony.

SARAH FISHER-GOAD, DEPUTY DIRECTOR OF OPERATIONS, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (DCCED), said the BFRLF provides a financing source for communities of 2,000 or less to purchase an annual supply of fuel. She said AEA only commits to loans based on cash available. The bill provides a backstop source of funds to allow AEA to better meet the needs of borrowers. There is an intense demand and repayment cycle. The bill limits the lending ability by restricting the amount based on the June 30 cash balance for the PPF, to \$2 million or 10% of the available cash balance. The current cash balance of the PPF is approximately \$10.8 million, limiting loans to approximately \$1 million. If the balance goes below \$5 million, the BFRLF would be suspended (Statement on File).

Representative Thomas asked if AEA can garnish a community's revenue sharing if that community has outstanding debt. Ms. Fisher-Goad answered that although AEA has the ability to

collateralize the loans and request payments, a community would not be eligible for a new loan until the balance was paid off.

Representative Thomas pointed out that the history sheet (Copy on File) shows several communities with three or four years of unpaid balance.

Representative Kelly asked if the interest rate changed over time. Ms. Fisher-Goad replied that the first time an entity borrows the interest rate is zero percent. The rate then changes to the municipal rate of approximately 4.5%.

CHRIS ANDERSON, DEPUTY DIRECTOR OF CREDIT, ALASKA ENERGY AUTHORITY, added that delinquencies are averaging less than 3% and tend to be seasonal.

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DEL CONRAD, CEO, RURAL ALASKA FUEL SERVICES, has been managing the Bulk Fuel Bridge Loan Program on behalf of DCCED since its inception. The bridge loan program was set up with a \$500,000 grant from the Denali Commission in 2004 when the first price shock hit rural Alaska. A significant number of communities had been turned down for loans by AEA. The Denali Commission made a grant to the State. The State, in conjunction with the Alaska Village Electrical Cooperative (AVEC) and Rural Alaska Fuel Services (RAFS), set up a loan program which has been run by RAFS.

Mr. Conrad explained that in order to be eligible, a community or borrowing entity has to be turned down by AEA. This could happen for a variety of reasons, such as an outstanding debt or an IRS lien. At that point the entity becomes eligible for the bridge loan program. If the community repays on a timely basis, they can get the loan for another two years at zero percent interest. The goal is to help high risk, financially unsustainable communities move back into the regular borrowing process. About \$6.5 million has been loaned over the past four years.

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Representative Kelly asked if Mr. Conrad functions primarily as a banker in relation to the program. Mr. Conrad answered that related to the fuel provision, he is primarily a banker. Related to the bridge loan, he is part banker and part consultant. He meets with community administrators and helps them sort through costs. The largest issue is typically that a community will keep prices too low and not enforce collections in an attempt to help its residents. Representative Kelly asked if the responsibility stays with the utility. Mr. Conrad said yes, but added that he assists the community in problem-solving.

PUBLIC TESTIMONY CLOSED.

Vice-Chair Stoltze MOVED to report CS HB 338 (FIN) out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CS HB 338 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new zero fiscal note by the Department of Commerce, Community and Economic Development and new fiscal note by the Department of Commerce, Community and Economic Development.

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HOUSE BILL NO. 414

An Act relating to the crime victim compensation fund.

JANE PIERSON, STAFF, REPRESENTATIVE JAY RAMRAS, explained that HB 414 relates to the Violent Crimes Compensation Board, established under statute in 1972 to help mitigate damages and financial hardships suffered by victims of violent crime. The Board provides compensation to cover reasonable costs such as medical and counseling expenses, lost income, and relocation costs. Most of the Board's funding comes from Permanent Fund Dividend (PFD) monies that are made available through ineligibility of certain criminals. Every year the Board generates revenues through provider refunds, inmate salaries, restitution payments and other payments. The revenue is deposited into the General Fund. Between 1996 and 2006, these revenues totaled \$570,000. Some of the funds were appropriated back into the Board in years when the PFD and federal grant monies did not cover expenditures (Statement on File).

Ms. Pierson pointed out that HB 414 would create a non-general fund program definition for the Board, which would generate more federal funds.

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Vice-Chair Stoltze spoke to the dedication of the Board.

SUSAN BROWNE, ADMINISTRATOR, VIOLENT CRIMES COMPENSATION BOARD (Testified via teleconference), explained the functions of the Board. She has personally viewed and worked many thousands of cases.

PUBLIC TESTIMONY CLOSED.

Representative Kelly asked for clarification regarding the fund. Ms. Browne thought the account could become self-sustaining.

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Co-Chair Meyer referred to the zero fiscal note.

Representative Hawker stated for the record his discomfort with designated funds. Representative Kelly agreed. Co-Chair Meyer acknowledged the designated fund status but thought the cause worthy. Representative Gara thought the Board was different than other dedicated funds since they are statutorily mandated to pay compensation to victims of violent crimes.

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Vice-Chair Stoltze MOVED to report HB 414 out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

HB 414 was REPORTED out of Committee with a "do pass" recommendation and with attached zero fiscal note #1 by the Department of Administration.

HOUSE BILL NO. 356

An Act relating to an exemption from municipal property taxes for certain real property that is exempt from levy and collection of real property taxes when conveyed by the federal government to implement the Alaska Native Claims Settlement Act or when conveyed under a land exchange authorized by that Act involving land or an interest in land that is made exempt from local property taxes by that Act; and providing for an effective date.

Vice-Chair Stoltze, Sponsor, introduced the bill as expanding the list of property that is exempted from municipal taxation to include property that has been conveyed under the Alaska Native Claims Settlement Act. The legislation will provide benefits for all municipalities in Alaska who wish to enter into land exchanges with Native villages and regional corporations. Currently, land a Native corporation receives in an exchange with a municipality may not be exempt.

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Vice-Chair Stoltze clarified that the municipality would have to want to do the land trade, in response to a question by Representative Kelly.

Representative Hawker commented that the bill is re-affirming the over-riding federal statute and state statute. He was curious if municipalities could tax land that was exempt by federal statute. Vice-Chair Stoltze thought the bill was affirming the intent.

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Co-Chair Meyer referred to fiscal notes.

Co-Chair Chenault MOVED to report HB 356 out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CS HB 356 (CRA) was REPORTED out of Committee with a "do pass" recommendation and with attached zero fiscal note by the Department of Commerce, Community and Economic Development.

#### ADJOURNMENT

The meeting was adjourned at 2:51 PM.