

HOUSE FINANCE COMMITTEE  
March 19, 2008  
1:45 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:45:00 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 Reggie Joule  
Representative Mike Kelly  
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative John Harris  
Representative Mary Nelson

ALSO PRESENT

Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Charlie Swanton, Director, Division of Sport Fish, Department of Fish and Game; Ellie Fitzjarrald, Director, Division of Public Assistance, Department of Health and Social Services; Tom Wright, Staff, Representative Mike Chenault; Jennifer Klein, Facilities Manager, Department of Health and Social Services; Vern Jones, Chief Procurement Officer, Department of Administration; Kaci Schroeder, Staff, Representative Bill Thomas

PRESENT VIA TELECONFERENCE

Tim Joyce, Mayor, Cordova

SUMMARY

HB 396 An Act relating to and increasing the amount of the 2008 permanent fund dividend; and providing for an effective date.

HB 396 was HEARD & HELD in Committee for further consideration.

HB 418 An Act providing notice of and authorization for the Department of Administration to enter into a lease-purchase agreement for the construction, the purchase of equipment, and the financing of a fish hatchery in Anchorage to be operated by the Department of Fish and Game; relating to the issuance of certificates of participation for the fish hatchery; authorizing payments for the lease-purchase agreement from sport fishing facility license surcharge fees; relating to capital lease financing of sport fishing facilities; and providing for an effective date.

HB 418 was HEARD & HELD in Committee for further consideration.

HB 419 An Act prohibiting certain state leases and lease-purchase agreements for equipment and other personal property; and providing for an effective date.

HB 419 was HEARD & HELD in Committee for further consideration.

#HB418  
[1:47:05 PM](#)

HOUSE BILL NO. 418

An Act providing notice of and authorization for the Department of Administration to enter into a lease-purchase agreement for the construction, the purchase of equipment, and the financing of a fish hatchery in Anchorage to be operated by the Department of Fish and Game; relating to the issuance of certificates of participation for the fish hatchery; authorizing payments for the lease-purchase agreement from sport fishing facility license surcharge fees; relating to capital lease financing of sport fishing facilities; and providing for an effective date.

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DEVEN MITCHELL, DEBT MANAGER, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, inquired if the Committee preferred to hear testimony on the project or the financing first. Co-Chair Meyer requested the project be identified.

CHARLIE SWANTON, DIRECTOR, DIVISION OF SPORT FISH, DEPARTMENT OF FISH AND GAME, explained that the project proposes building a hatchery in Anchorage for the purposes of producing resident species as well as anadromous fish. The fish would be distributed throughout Southcentral Alaska as well as provide brute stock for the Interior hatchery.

Mr. Swanton pointed out that in 2004, the Division managed hatcheries largely located on military bases. In that year, the military decided to decommission their power plants. Those facilities are "vintage", built in the 1970's and now, well beyond their construction life. The intent of the bill is replace the Anchorage facility with a 146,000 square foot facility, located on Elmendorf Air Force Base, which will allow the State to produce fish for the programs for the next 20-30 years. The original cost estimate was \$45 million dollars and the estimate received in March 2008 was \$100 million dollars, including the construction, design and site preparation work as well as the associated legal and administrative fees.

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Vice-Chair Stoltze applauded the effort. He worried about the policy passing through the House Special Committee on Commercial Fisheries because of over-escapement issues. He asked if there was too much salmon escapement in the Southcentral streams. Mr. Swanton explained there are six species of salmon; he asked for further refinement of the questioned species. He agreed there has been production and yield escapement and that over-escapement has been identified with Kenai sockeye.

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Co-Chair Chenault questioned the \$100 million dollar estimated Anchorage hatchery costs and asked the anticipated costs associated with the Fairbanks hatchery. Mr. Swanton replied \$45.6 million dollars and that a surcharge will pay the bond debt.

Co-Chair Chenault acknowledged how essential hatcheries are throughout the State. He mentioned that a hatchery in Kenai had to be shut down resulting from spawning fish in federal waters. He indicated concern with the proposed amount for the State in obligating for the proposed expenditures.

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Co-Chair Meyer inquired why expenses had so dramatically increased and understood there is not adequate funding for both proposals. He said that both Anchorage and Fairbanks hatchery proposals are in a "mess together". He inquired if the Department would recommend a Governor's veto for the supplemental language.

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Mr. Swanton addressed the concerns. Originally, when the hatchery issue first surfaced, there was not an available site for the Fairbanks hatchery. A design is usually

developed on a selected site. The original numbers submitted were confusing. The \$25 million dollar number was in fact for construction alone. The buildings are very complex to build and if something goes wrong, an entire year of production could be lost. He identified increases to construction costs. The refinements on the estimates are good.

Co-Chair Meyer was concerned that the Anchorage hatchery would be dependant on a Certificate of Participation (COP) approval, making the project based on selling fishing licenses in Southeast Alaska to subsidize it. He wanted to see that the supplemental split the request, encouraging Fairbanks and Anchorage to work together for COP funding. He maintained that was not fair.

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Mr. Mitchell proposed a potential solution to amend the proposed legislation to include Fairbanks as a participant in the transaction and allocate costs to accomplish both projects. One concern regarding the Fairbanks proposal is that they are further along in the design process and now are ready to assume bids for construction.

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Co-Chair Meyer inquired the status for funding the Fairbanks project. Mr. Swanton noted that the bids for construction had already gone out for the reimbursable service agreements (RSA) and will be opened in early April 2008. He noted the Fairbanks facility is on schedule.

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Mr. Mitchell addressed financing aspects of the legislation. He noted that the surcharge on sport fishing license sales was implemented in 2006, creating a revenue stream bonds and supported by that revenue.

In order to achieve the needed ratings, the State required a restrictive bond test to secure the revenue stream. As a result of and with the outstanding debt, there are limitations on how much more capital can be raised from that finite revenue stream. Mr. Mitchell was comfortable with about \$45 million dollars as an achievable figure without General Fund support. That would involve backend loading and the use of capital appreciation bonds and being more creative and perhaps suffering on the rating side & interest rate. As an alternative, the COP options were introduced. The General Fund would become the backstop for the bonds and use the surcharge to pay a portion of the debt service on simple permanent bases to the outstanding bonds.

Mr. Mitchell pointed out that the fiscal note does not indicate issuing capital appreciation bonds, but rather shows the benefits of the current interest bonds, using some General Fund support at least through 2026 to support the obligations. If fishing license revenues from the surcharge continue to grow, the amount would diminish over time. The structure extends the surcharge by 15-17 years. Contemplating the structure is a large commitment. He noted the structure is marketable.

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Co-Chair Meyer thought that the length could be shortened by adding more cash. Mr. Mitchell responded that the legislature could come up with General Fund monies that could be appropriated to the projects or direct the Administration to administer the Capital Appreciation Bonds (CAB) with a shorter life.

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Representative Crawford asked about specifics of the bonds. Mr. Mitchell explained that CAB bonds are otherwise referred to as zero coupon bonds, paying no interest expense until the bonds mature. The earnings would correlate to an annualized interest rate.

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Representative Thomas remembered when Senator Seakins introduced a similar bill. He commented that he represents a long district that has many hatcheries. He pointed out that Southeast Alaska would be paying 25% of the sport licenses and receiving nothing back and then paying for hatcheries in Anchorage and Fairbanks. Mr. Swanton advised that the total request of the Administration is \$146 million dollars. Representative Thomas argued that Southeast sells 25% of the permits and maintained that the requests are not "fair or equitable" as the Governor proposes her Administration to be. He said he would only support the bill if Southeast hatcheries were included.

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Representative Thomas asked if it was intended to displace Kings and Coho's in the Whittier area. Mr. Swanton did not know the specifics. There have been modifications to where fish are provided, yet did not know about displacement.

Representative Thomas pointed out past federal efforts to shut down military bases and asked what would happen if Elmendorf was closed. Mr. Swanton explained the current plan to use the Elmendorf Air Force is isolated from the base proper; however, it is on federal land. The former

facilities were not on a public access road which was problematic; that has been addressed by rerouting it.

Representative Thomas referenced the DiPac Hatchery, pointing out that most of the funding comes from cost recovery of a chum release in Amalga Harbor. He wanted to see some of the dollars used to pay off sport-fish hatchery activity. He emphasized that Southeast should be supported. He noted he had hoped to add an amendment to the bill but that it was impossible the way it is written; consequently, he would oppose it.

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Representative Hawker referenced the COP vehicle; he asked why the Administration had not requested General Obligation (GO) bond funding if it was determined that it was the will of the people to support the projects. Mr. Mitchell acknowledged that it could be funded through GO bonds, however, there is a timing issue associated with the project, lending urgency. He added that stand-alone facilities lend themselves to COP type funding.

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Representative Hawker wondered if the request was unrealistic. Mr. Swanton characterized the request as moderate, pointing out that the costs associated with the building are complex, structured with tanks, pumps, & back-up systems. It will be a production facility. He advised that the Fairbanks facility had been scaled back. The purpose is to efficiently produce fish. There are additional costs associated with the design work. He defended the costs of the project.

Representative Hawker requested objective testimony regarding the facts. Mr. Swanton did not have any available, but offered to research it for the Committee.

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Vice-Chair Stoltze wanted to see more fish in the Southcentral streams but was not sure that HB 418 was the correct vehicle to achieve that. He worried about the costs and commented on buy-back programs. Mr. Swanton explained that the facility would produce about half the resident species for stocking streams, lakes and impoundments and of which, 140 are located in the Interior, 82 in Mat-Su and a smattering up and down the Kenai Peninsula. The other production component is the anadromous, which are primarily King and Coho and what the facility production is intended for. It should satisfy the location demands for particular species. He added that the language of the bill is broader regarding angler opportunity.

Vice-Chair Stoltze noted that he had received a lot of mail regarding the deficiency of Alaska salmon availability. He did not understand the motives for the bill and asked if he misread the needs of Southcentral and public pressure.

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Mr. Swanton interjected that he had not indicated that lake trout would be the primary species released. He stipulated that he had referenced rainbow trout and Dali Varden as the primary large volume fish. Vice-Chair Stoltze said he had been generically referring to lake fish & apologized.

Mr. Swanton guaranteed that without the hatchery production, there would be less sport fishing opportunities in and around Cook Inlet and cannot be expanded without a production facility. Vice-Chair Stoltze offered to ask the Commissioner about the buy-backs. Mr. Swanton addressed the concerns with a buy-back, pointing out that unless there is a large volume, the fish preserved through not having permits would not go elsewhere and that the permit being fished, always catches more fish.

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Vice-Chair pointed out that with the economic value currently being in Cook Inlet, \$50 million would be a substantial buy-back. Mr. Swanton agreed it would be substantial. Mr. Mitchell interjected that a buy-back would not be funded through COP; for that funding there must be a project.

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Co-Chair Meyer understood that the State would have a 50-year lease of the military land base. Mr. Swanton said yes.

Co-Chair Meyer inquired how Fairbanks currently addresses the fish situation. Mr. Swanton said, currently, there is an experimental pilot hatchery run on the banks of the Chena River, producing between 30,000 to 40,000 rainbow trout from the Anchorage facility. Co-Chair Meyer asked if that process could continue rather than spending \$50 million on a new hatchery. Mr. Swanton commented that the current situation will continue to diminish opportunities.

Co-Chair Meyer thought the State could save at least \$50 million dollars by using the Anchorage hatchery and trucking fish to Fairbanks. Mr. Swanton did not know the age of the facilities but thought they were close to 40 years old and that both have site demands. He mentioned the risks placed in one facility. Having two facilities, it is spread out. One facility carries additional water demands. He was not

sure if the current system could adequately produce all the fish.

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Co-Chair Chenault referenced the federal lease, questioning the guarantee on a 50-year lease on federal property.

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Representative Thomas pointed out that in the 1970's, the Fishery Rehabilitation and Enhancement Division (FRED) built hatcheries in Southeast Alaska, which are now are operated by regional aquacultures. He asked if Department of Fish and Game would be managing the newly proposed hatcheries. Mr. Swanton was not sure why the FRED Division had surrendered management. The Department would operate the new proposed facilities.

Representative Thomas mentioned his involvement with the DiPac Hatchery and that they had to apply for federal funding. Mr. Swanton reported that operating a facility producing pink and chum salmon is different from other species and that they need to be held longer. He added, concerns related to disease.

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Representative Joule asked the difference between COP versus GO bonds. Mr. Mitchell responded the differences are subtle and perhaps more legal than not. With a General Obligation bonds, there is a full faith commitment and tax pledge with an entity. A Certificate of Participation is something that the State or municipality can issue and that there is a "lesser" pledge and is structured around a lease. An investor is looking at the credit as being the General Fund of the State of Alaska subject to appropriation pledged to them.

Representative Joule asked if GO bonds had to be approved by the voters. Mr. Mitchell affirmed. Representative Joule asked if the COP's were simply an act of the Legislature. Mr. Mitchell replied that revenue debt and lease typically do not require a vote of the electorate.

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Co-Chair Meyer asked if the last COP issued by the State was for the Virology Lab. Mr. Mitchell said yes and that the one before that was the Department of Environmental Conservation lab. A credit pledge is not an unusual commitment.

Co-Chair Meyer asked where the fish from the Anchorage hatchery go. Mr. Swanton explained that there are 13 sites from Kachemak Bay to Ship Creek that receive King and Coho salmon.

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PUBLIC TESTIMONY CLOSED

Co-Chair Meyer acknowledged the proposed dilemma, realizing that the Legislature had authorized these two projects four years ago.

Representative Crawford requested research information regarding the results of the hatchery. Mr. Swanton did not have an historical assessment of the costs available. Some of the hatcheries are at least 20-years old. He offered to research those projects.

Representative Crawford questioned the size of the hatcheries in relationship to what already exists. Mr. Swanton indicated that he had visited only three or four sites around the State and did not have an adequate frame of reference.

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Representative Thomas asked if the Department of Fish and Game budget would be increasing each year to cover the operational costs for the hatcheries. Mr. Swanton advised that \$2.3 million dollars had been included for current facility operational costs. He did anticipate that operation of a facility could be run with the current operational allocation provided to the Department. It is anticipated that the Anchorage hatchery could be run for approximately \$2.3 million dollars annually, essentially, a no net gain. The Fairbanks facility will cost about \$1.7 million dollars to operate. Presently, the State is going through the Division's internal budget to capture the operating costs.

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Co-Chair Meyer hoped that the COP could include both hatcheries, realizing that if the bill is going to make it through the Legislative bodies, it can not be a stand alone Anchorage project.

Representative Kelly commented on the Fairbanks hatchery, pointing out that construction costs have increased dramatically statewide and that the needed amount is causing consternation. He encouraged that the project be scaled

back. He wanted to see fixed costs put in place for the overruns, pointing out that the project are not justified. An escapement should be the 1<sup>st</sup> requirement. It has not been completely balanced out. He hoped the problem could be solved with the Governor's help, hence, HB 418.

Representative Kelly encouraged more focus on cost overruns, which the Department has responded with scale-backs. He pointed out that in the old bonding package, there is \$21 million remaining dollars dedicated to Fairbanks. He believed that some of the funds were available for switching over. He stated that there is support from both communities on the facility project & wanted to see the bill move forward. He offered to work with Co-Chair Meyer.

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Co-Chair Meyer acknowledged the efforts put forward by the departments. He observed that they had met last year and that he had hoped a resolution could have come forth earlier in the session.

Vice-Chair Stoltze apologized for the comments he had made to Representative Kelly.

Co-Chair Chenault referenced the fiscal note, questioning if the debt service would come from the capital or operating budget. Mr. Mitchell advised that the debt service was scheduled to come out of a combination of the surcharge collection remaining \$500 thousand dollars operational commitment for the next eight years. Presently, the total is about \$1.5 million dollars and the balance would then come from General Fund dollars. Co-Chair Chenault clarified that it would be included in the operating budget until 2026.

Co-Chair Meyer thought it could be off-set by a cash infusion from the capital budget. Representative Kelly pointed out that by adding the item in, it would not increase the fishing license fee, but instead extends it. Mr. Mitchell said yes, pointing out those fees are established in statute. The amount is more punitive on out of State sport fishers and that a one year out of state license costs \$100 dollars.

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HB 418 was HELD in Committee for further consideration.

#HB396

[2:56:18 PM](#)

HOUSE BILL NO. 396

An Act relating to and increasing the amount of the 2008 permanent fund dividend; and providing for an effective date.

REPRESENTATIVE BILL THOMAS, SPONSOR, introduced his staff, Kaci Schroeder. He pointed out that high cost fuel is affecting everyone statewide. Alaska contributes a significant amount of resources to the Nation, yet residents pay some of the highest prices for fuel. If the hardships associated with fuel costs continue, it will force many families to leave the State for a lower cost of living. While the State devises a permanent plan to address the problem, people are continuing to pay the costs. HB 396 attempts to temporarily address the problem by increasing the amount of the 2008 Permanent Fund Dividend (PFD) check by \$500 dollars. Representative Thomas summarized that the proceeds from Alaska's oil belongs to all of Alaska and should be shared equally. He urged support for HB 396.

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Vice-Chair Stoltze asked if Representative Thomas would oppose the money coming from a progressivity formula. Representative Thomas commented that until the Legislature as a body can create a plan that treats everyone equally, HB 396 provides a one-time shot. With the high energy costs, it is important.

Vice-Chair Stoltze reiterated his question if the sponsor was amenable to another source of funding for the bill. Representative Thomas wanted it to one come out of the PFD [a \$310 million one-time cost]. Vice-Chair Stoltze worried about removing funds out of the formula. He agreed that getting money to Alaskans "is not a needs issue but a fair distribution concern".

Representative Thomas thought the proposed legislation provides a fair way to distribute the wealth accumulated by the State. He agreed it could be classified as an energy rebate. Vice-Chair Stoltze thought it would be more appropriate as an energy dividend. He asked if issuance of a separate check had been considered. Representative Thomas thought that one distribution would be cheaper.

Co-Chair Meyer was concerned about getting the money back to the people for fuel. He disagreed with using the PFD earnings and proposed instead, use of the surplus resulting from high fuel costs. He advised that the dollars will help the economy regardless on how they are spent.

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Representative Gara agreed with finding a way to issue money to help people defray their high energy costs but would not

support money coming out of Permanent Fund. He said he would support the rebate coming out of the General Fund. He noted it was a proposed one-year only item so a continual funding source was not necessary.

Representative Gara expressed many people have a problem giving the funds to the wealthy. He disagreed with comments made by Co-Chair Meyer. It is the lower income people that actually put the money into the economy. He thought the funds could be given to people who make only a certain amount. Every adult could apply and indicate how much they earn, noting that it is a crime to lie on a State benefit form.

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Representative Thomas agreed that using General Fund money would also be a good funding source. He mentioned the discrimination issue voiced by Representative Gara, maintaining he wanted a program that does not discriminate against an income bracket. Representative Gara stated he would not support the legislation if it gives money to rich people. Representative Thomas referenced a bill in the Senate Finance Committee (SFC) providing certain dollars as charitable donations. He noted, currently, everyone in the State receives a PFD and that there is no discrimination with that issuing.

Co-Chair Chenault supported all Alaskans receiving the subsidy and thought that it could help spur statewide economy. He understood that Earnings Reserve was relatively low on funds; he did not know the effect paying the subsidy from the PFD.

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Vice-Chair Stoltze appreciated the debate. He remembered that initially, the proposal was floating as an energy program. He did not want to see an increase to the PFD.

Representative Crawford indicated his concern with the legislation. He commented that energy costs are going to be high next year as well. He encouraged the State be investing ways to get off fuel such as making renewal energy the goal. He suggested that a \$300 million dollar investment into considerations for renewable energy costs would be a huge boost. He wanted to see a plan that could create dividends for years to come.

Representative Thomas pointed out that HB 152 was sitting in Senate Finance Committee in support of renewable energy ideas. He agreed with the need to support alternative power sources.

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Representative Joule supported finding alternative energy sources as recommended. He noted that he supports the legislation submitted by Representative Thomas to addresses short term concerns as he believes that the core premise is to help people with energy costs and was less concerned with who gets it. He agreed that the long term concerns must be discussed. The survivability of rural Alaska is directly related to high energy costs, which a huge concern and those decisions must be made soon.

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Representative Gara mentioned fiscal discipline and the need to prioritize these concerns. He voiced support the first \$150 million dollars going to the poorest, sincerely needing the funds. He stated that second half [\$150 million dollars] could fund a strong university financial aid program to get people into college. He revisited his concerns for financing low income college students.

Representative Gara advised he is a co-sponsor for the renewable resource funding bill, adding that it is important to prioritize and rank projects with relationship to how to transform society.

Co-Chair Meyer supported HB 396, indicating that the same argument could be used for the PFD's. He maintained that everyone should be treated fairly and equally.

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Co-Chair Chenault agreed with comments made by Co-Chair Meyer that all Alaskans should be given the entitlement and that he would not support creating two classes of people, an upper and lower income group. He did not want to see the State divided, yet wanted to address statewide needs in a fair and equitable manner.

Co-Chair Meyer relayed that the Governor has the oil prices; he maintained that should be shared with all Alaskans.

Representative Thomas advised that over 53% of Alaskans are in favor of the bill. He hoped that the money could help put food on the table.

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TIM JOYCE, MAYOR, CORDOVA (Testified via teleconference), voiced support for HB 396. He stated that the cost of energy has drastically increased in the past few years and much more quickly than inflation. The economy can not adjust fast enough to compensate for the costs of energy and

as a result, spending by individuals needs time to adjust. He listed resource costs in Cordova. There is a hydro plant in Cordova. The recommended allowance proposed by Representative Thomas could pay for approximately one month of heating in the Cordova area. He urged consideration for relief for citizens of Alaska, providing time to adjust to the new energy factors. He reminded members that last year, the price of oil increased to \$110 dollars per barrel.

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ELLIE FITZJARRALD, DIRECTOR, DIVISION OF PUBLIC ASSISTANCE, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, offered to answer questions of the Committee on the fiscal notes.

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PUBLIC TESTIMONY CLOSED

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Co-Chair Meyer wanted to hold the bill in Committee in order to determine an appropriate funding source.

Representative Gara reiterated that he would not support the bill if the funds came out of the Permanent Fund. He maintained the need for funding a university financial aid program. Co-Chair Meyer believed that should be a later philosophical debate. He maintained that the distribution should be the same as the PFD. The list of eligible persons are known so the costs associated with administering the program would be substantially less.

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Representative Crawford pointed out there is a statutory definition of the poverty rate. He maintained that if the government is making an investment in people's lives, it needs to be a long-term investment and should get away from high fuel costs. He urged consideration of alternative energy options. He asked to work with Representative Thomas on a long-term fix.

Co-Chair Meyer pointed out that the Longevity Bonus had been available to everyone as well as the PFD program. There have been programs in place that are not income based. He maintained, it is the most fair way.

Representative Thomas advised that included in the supplemental funding for the energy assistance was \$350 million dollars and that \$100 million of that was for grants for home improvements, based on income.

Representative Gara reiterated that this is a poverty level issue, especially for the kids at poverty level. He maintained that the logic used was inconsistent and that discrimination against wealthy people is not discrimination. He emphasized that he does not share the Co-Chair's view of discrimination.

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HB 396 was HELD in Committee for further consideration.

#HB419

[3:43:22 PM](#)

HOUSE BILL NO. 419

An Act prohibiting certain state leases and lease-purchase agreements for equipment and other personal property; and providing for an effective date.

TOM WRIGHT, STAFF, REPRESENTATIVE MIKE CHENAULT, said that HB 419 was introduced to eliminate the use of the master lease line of credit that some departments are utilizing as a means to purchase equipment or other non-real property items.

The State's master lease line of credit was established in 2001 in response to inefficient leasing of equipment by the agencies. The State Bond Committee selected Key Municipal Financial as the provider of a \$25 million master lease line of credit in June 2001. Lease obligations can be increased above the \$50 million dollar threshold through the use of the master lease program or through independent lease purchase agreements, including vendor lease purchase agreements or a third party lease purchase.

He noted that many questions could be addressed through passage of HB 419. Generally, the limitations on departments' ability to enter operating lease purchases for non-real property purchases are broad. AS 36.30.085 provides the ability for departments to enter into lease purchase agreements to perform duties and statutory functions of the departments. The statute limits the term of the lease to 40-years, requiring that the lease be subject to annual appropriation and otherwise non-limiting. He pointed out AS 36.30.085 pertains to real property and is silent on the use of equipment and other non real property issues. He noted that there are definitions of real and non real property found in AS 01.10.060.

Mr. Wright directed comments to the policy questions that arise from the master lease line of credit program:

- Is it a circumvention of the legislative appropriation process.
- Where do the payments for the participating agencies show up in the agencies budgets.
- Why do we pay interest at a time when General Fund dollars are available to purchase equipment.
- Who controls the dollar amounts available within the master lease program.

He recommended that departmental purchasing of big items such as equipment or other items may be better sought through the Capital budget process.

Mr. Wright referenced the Master Lease Summary attachment, indicating the twenty-nine transactions, some of which have been paid. (Copy on File). He pointed out that there are about \$40 million dollars of projects that have gone through the Master Lease line of credit with approximately \$26 million dollars owed on those transactions.

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JENNIFER KLEIN, FACILITIES MANAGER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, offered to answer questions of the Committee.

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, commented that the Administration is indifferent on the bill. He stated that HB 419 would severely restrict the flexibility of the State to respond to interim needs. The master lease of credit is a program, which he manages. It was formulated in the early 2000's when there had been a series of private placements made with banks for structuring, stand-alone transactions. He realized that some agencies were using venter financing, some of whom are creative people and have financing associates. The financing can end up being a cost center with high interest. The formulation of the program was not an attempt to do something new but rather, it was an attempt to do something better. It was a matter of accessing a tax exempt rate of interest, recognizing that it was the State of Alaska. Alaska should obtain a rate and have terms and conditions for that type issue. The program has received some notoriety with the purchase of the jet.

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Co-Chair Chenault pointed out that when the master lease line of credit was put into effect, the State did not have the amount available that it currently has. The line did provide the Administration flexibility. He worried about the Legislature giving away their appropriation authority and if some of the issues were "sliding" around. He

believed that if any of the issues were really needed or if it was a timing issue, then the master lease would be the way to go. He wanted to be assured that concerns are "tightened" up & not abused.

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VERN JONES, CHIEF PROCUREMENT OFFICER, DEPARTMENT OF ADMINISTRATION, acknowledged the concerns voiced by Co-Chair Chenault creating an attempt to zero in on the master lease line of credit. The bill as written, would eliminate all leases and will create departmental difficulty. There are some things that by law, the State can not own and must lease; there are other times where smaller dollar leases do make sense. He reiterated concerns with the way the bill was written.

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Co-Chair Chenault advised that HB 419 was not intended to eliminate all leases but rather to bring the Administration to the Legislature for discussions on certain issues.

Representative Thomas asked what was the spending limit. Mr. Jones was not aware of a limit.

PUBLIC TESTIMONY CLOSED.

HB 419 was HELD in Committee for further consideration.  
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ADJOURNMENT

The meeting was adjourned at 3:57 P.M.