

HOUSE FINANCE COMMITTEE
April 7, 2010
9:16 a.m.

9:16:10 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:16 a.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Mike Doogan
Representative Neal Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

Representative Mike Hawker, Co-Chair
Representative Anna Fairclough

ALSO PRESENT

Bryan Butcher, Director, Government Affairs and Public Relations, Alaska Housing Finance Corporation, Department Of Revenue; Rob Earl, Staff, Representative Bob Herron, Sponsor; Erin Harrington, Staff, Representative Alan Austerman; Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority, Department of Commerce, Community, and Economic Development; Wayne Stevens, President/CEO, Alaska State Chamber of Commerce.

PRESENT VIA TELECONFERENCE

Steve Haagson, Director, Alaska Energy Authority, Department of Commerce, Community, and Economic Development.

SUMMARY

HB 363 AIDEA MEMBERSHIP

HB 363 was HEARD and HELD in Committee for further consideration.

SB 270 AK HOUSING FIN CORP DIVIDEND

SB 270 was REPORTED out of Committee with a "do pass" recommendation and with attached previously published fiscal note: FN1 (REV).

#sb270

SENATE BILL NO. 270

"An Act relating to the dividend paid to the state by the Alaska Housing Finance Corporation; and providing for an effective date."

9:16:35 AM

BRYAN BUTCHER, DIRECTOR, GOVERNMENT AFFAIRS AND PUBLIC RELATIONS, ALASKA HOUSING FINANCE CORPORATION (AHFC), DEPARTMENT OF REVENUE, noted that SB 270 corresponded to a House bill. He explained that the legislation would change the dividend paid by AHFC, as a result of changes to accounting procedures. The bill would ensure that the dividend paid to the state would be 75 percent of the corporation's net income. The transfer plan for the AHFC dividend was put into statute in 2003; the current provision represented the second time the corporation had to adjust it because of accounting changes.

Representative Doogan queried the difference between the House and Senate versions of the bill. Mr. Butcher answered that there were no changes in the Senate bill.

9:20:12 AM

Vice-Chair Thomas MOVED to report SB 270 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 270 was REPORTED out of Committee with a "do pass" recommendation and with attached previously published fiscal note: FN1 (REV).

#hb363

HOUSE BILL NO. 363

"An Act relating to the membership of the Alaska Industrial Development and Export Authority."

9:21:55 AM

ROB EARL, STAFF, REPRESENTATIVE BOB HERRON, SPONSOR, explained that HB 363 had been sponsored by the House Community & Regional Affairs Committee, which is co-chaired by Representatives Cathy Munoz and Bob Herron. He detailed that the mission of the Alaska Industrial Development and Export Authority (AIDEA) was to promote economic growth in the state through providing entities with various means of financing and investment. The organization provides Alaskan businesses with long-term financing options at a reasonable cost. Each year, 25 to 50 percent of AIDEA's return on assets is redistributed back to the state's general fund as a dividend. He noted that the dividend for the current year amounted to \$23 million.

Mr. Earl informed the committee that the AIDEA board also functions as the Alaska Energy Authority (AEA) board. Currently, the board has five members, including the commissioners of the Departments of Revenue (DOR) and Commerce, Community, and Economic Development (DCCED). A third member is a discretionary commissioner appointed by the governor; currently the member is the commissioner of the Department of Transportation and Public Facilities. Two public members are also appointed by the governor. House Bill 363 would add three more private-sector or public members to the board and retain the commissioners of DOR and DCCED, expanding the board to seven members. The legislation also stipulates that private-sector members possess business and/or industry expertise as well as leadership skills.

9:25:11 AM

ERIN HARRINGTON, STAFF, REPRESENTATIVE ALAN AUSTERMAN, provided background on the bill. She reported that Representative Austerman chaired the House Finance Committee subcommittee for DCCED and had had opportunity to consider the resources the state puts towards economic development. In the spring of 2009, he asked staff to identify best practices for the state's contributions to

economic development and to make a comparison with similar activities in other states. She noted that Alaska is acknowledged as a leader in encouraging private-sector development.

Ms. Harrington reported that states with increased economic development resulting from economic revitalization and diversification had all brought additional private-sector guidance into the application of state resources. She summarized that in Alaska, the AIDEA board was the only state entity with private-sector advisors; furthermore, they represented only two of the board's members. She pointed to a handout, "Economic Development in State Government" (copy on file), and noted that Wyoming and North Dakota were resource-based Western states that had successfully brought in private-sector advisors. Other states with the model included Oregon, Kentucky, and Indiana.

Mr. Earl pointed to intent language in the bill (page 1) that had been added in the Labor & Commerce Committee to address concerns that appointees be broadly representative of geographical areas in Alaska and of the industries important to the state. He explained that a seven-member board would give AIDEA more flexibility in forming subcommittees and would provide more potential for diverse experience and specialties as well as broader geographic and industry representation.

Mr. Earl detailed that the \$23,000 fiscal note would fund travel and stipends for approximately ten annual meetings for three additional board members. He pointed out that the money requested would amount to one one-thousandth of the amount the board returns to the state through the dividend. He stressed that the state would benefit through the dividend as well as through the jobs, infrastructure, and access to capital that AIDEA provides.

[9:29:52 AM](#)

Co-Chair Stoltze questioned the bill's legislative intent. Mr. Earl replied that the will of the Labor and Commerce Committee was to offer direction to the governor.

Co-Chair Stoltze stated that he felt the language was not meaningful, relevant, or practical, and could create expectation by other boards.

Representative Salmon expressed concerns about language on page 2, line 6, that could exclude rural representation. He wanted language that stipulated the inclusion of at least one rural area.

Co-Chair Stoltze thought the business and industry leaders of Alaska were diverse.

Ms. Harrington pointed out that the language intended to reflect some of the best practices that had been observed in other states and the methods used to achieve them.

Co-Chair Stoltze observed that AIDEA probably developed more than businesses.

Representative Austerman noted that the statement did not exclude rural representation. He believed there were many competent business people in rural Alaska and hoped the governor would choose the best representatives available.

[9:33:36 AM](#)

Representative Foster referenced experience serving on the Alaska Workforce Investment Board (AWIB). He shared Representative Salmon's concern and hoped at least one person on the board would be from rural Alaska. He queried the difference between private-sector and industry members. On the AWIB, three people had to be from the private sector and three had to be from business and industry sectors; he did not understand the difference between the two categories. Ms. Harrington reported that the issue had been raised in the Labor & Commerce Committee. Previous language had referred to business expertise; it was changed to business and/or industry expertise. She believed the intent was to not exclude people from organizations that were not private-sector but might have industry expertise.

Representative Doogan opined that the bill would change the makeup of the AIDEA board from one controlled by the governor (and designees) to an undefined group of civilians. He queried the advantage of the change. Ms. Harrington responded that part of the advantage would be to give the board a longer-term planning cycle than that possible within the constraints of the political cycle. She added that AIDEA had been involved in a long-term strategic-planning process.

[9:36:32 AM](#)

Representative Doogan pointed out that the appointees would serve on cycles as short as the election cycle. He asked for more information. Mr. Earl responded that the public members would be appointed by the governor and serve two-year terms; the commissioners would be on the board as long as they were in office.

Co-Chair Stoltze asked whether the members served at the pleasure [of the governor] or could only be removed for cause. Mr. Earl answered that the power to appoint implicitly includes the power to remove unless explicitly stated otherwise.

Representative Doogan questioned the need for a fix for something that was not broken; AIDEA already gives the state money each year. He had not heard a compelling reason to change the system except that it might move the decision-making further away from elected officials.

Representative Austerman did not think it was government's place to create new businesses and tell them what kind of investments they should be making. He acknowledged that the board had done a good job of creating new businesses that returned money to the state. He did not think the business sector was well represented on the board, which he characterized as dominated by state commissioners. He stated that the measure intended to provide a stronger business presence to guide the kind of investments made by AIDEA. He referred to a group created by Governor Palin to guide business-sector investments and increase economic development in Alaska; he thought the group was top-heavy with commissioners and had failed without private-sector input. He believed the example was informative.

[9:41:30 AM](#)

Representative Doogan argued that AIDEA was a state agency chartered by the state; its assets and powers are state ones. He maintained that the legislation would make a substantial change by altering the make-up of the board. He was concerned about putting private members in charge of a state agency; he believed the agency had made some bad calls.

Co-Chair Stoltze asserted that most of AIDEA's bad calls had initiated in the legislature.

Representative Joule referred to examples of other state boards with similar appointments, including the University of Alaska's Board of Regents, which is entirely made up of public members, as well as the board of the Alaska Railroad Corporation.

[9:45:03 AM](#)

Representative Salmon stated concerns with the make-up of the board, which could be concentrated in one geographical area. He argued that corporate concerns could be addressed more than social concerns, which could adversely affect rural areas.

Representative Gara thought the governor would have discretion to appoint members. He described various scenarios in which appointees would have strength in one area rather than another. He pointed to page 2, line 7 and wondered whether language could be added saying "each of whom has expertise in economic development." The governor would then have discretion to pick five people from the private sector, but would have broader range.

Representative Austerman thought the point would be well made if the subject was DCCED, but AIDEA is basically a bank. He did not want board members who did not understand banking. He wanted people from the business sector who made similar decisions. He did not intend to disqualify people from rural areas.

TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, informed the committee that AIDEA supported increasing the size of the board to increase flexibility and allow for more working committees. He noted that he had been on the Alaska Housing Finance Corporation board when he was deputy commissioner of DCCED; he believed the seven-member board was comprised of four public members and three commissioners.

Mr. Leonard added that AIDEA had decided through the strategic planning process that it needed more private-sector input. The board believed a combination of advisory committees and increasing the board through the legislation

would help the agency deal with rural and other kinds of industries.

[9:51:45 AM](#)

Co-Chair Stoltze queried the administration's position on the bill. Mr. Leonard replied that he had not gotten a statement but believed they were neutral; they want to increase the size of the board but do not have a position on the composition.

Representative Kelly spoke to past problems with the AIDEA board having a quorum. He believed five was a low number to do big business with. He supported increasing the size of the board. He queried whether the proposed language would allow for the appointment of rural business representatives. Mr. Leonard replied in the affirmative.

Representative Kelly believed the challenge of involving rural representatives was met. He asked whether the governor could dismiss board members. Mr. Leonard answered that the statute would not explicitly stipulate that members serve "at the pleasure of the governor." The agency asked the assistant attorney general whether the governor would implicitly have the power. He reported that Representative Herron's staff had discussed the issue with Legislative Legal Services, who determined that the governor would have the power.

Co-Chair Stoltze opined that someone would have the power until it was explicitly stated otherwise.

Representative Kelly had serious concerns about the issue, as he felt the governor currently controlled the majority of the decision-makers on the board and the terms were short. He wanted the issue to be very clear.

[9:55:42 AM](#)

Representative Doogan queried the amount of the dividend paid to the state. Mr. Leonard replied that the dividend had been \$23,600,000 for the current year. Representative Doogan pointed out that changing the system could affect the money paid and create problems.

Vice-Chair Thomas understood concerns about rural representation. He believed the Alaska Native Claims

Settlement Act resulted in the best rural people being "urbanized" and disconnected from rural life. He relayed personal experience. He stated concerns about members leaving rural areas and not coming back and urged caution in choosing rural representatives. He named retired people in Barrow and Kodiak that could fit.

[9:59:31 AM](#)

Representative Joule felt the definition of "industry" (page 2, line 7) was broad and could relate (for example) to fishing, energy, or oil and gas industries. He thought there had to be an interest on the part of rural people first; he believed persons who had been named could be appropriate and that the administration would consider the people if the board were expanded.

Representative Austerman commented that the dividend from AIDEA was great but should not be the driving force in promoting economic development in the state. He wanted to find good people who would serve on the board and use the bank as a tool to expand economic development. He opined that a lower dividend would be a good investment if the board created new businesses across the state.

Representative Austerman thought the issue of people not returning to the village was irrelevant to who should be appointed to the board. He did not think there would be a problem appointing qualified rural representatives. He was concerned that geographically stipulating how boards are appointed would open the question for all state boards. He believed the governor makes the best appointments he or she can. He did not know how the rural aspect could be defined.

[10:03:56 AM](#)

Vice-Chair Thomas commented that 99.9 percent of the state's resources come from rural Alaska.

Representative Gara expressed concerns regarding language that could be too narrow. He had suggested replacing the terms "private-sector business or industry" with "a background in economic development", but Representative Austerman had wanted people with banking experience. He wondered what could happen if there were five competent board members without banking knowledge. He questioned whether someone in AIDEA could guide the board on banking

issues so that board members would not need the experience. Mr. Leonard thought the governor would want someone with banking experience on the board since banking is a large portion of AIDEA business; AIDEA has a loan portfolio of approximately \$370 million. He reminded the committee that the board is for AEA as well. He believed that the Labor & Commerce Committee had wanted to add the word "expertise" to include persons with expertise in policy decision-making; the committee tried to make the definition broad enough to meet the responsibilities of both the AIDEA and AEA boards.

Mr. Leonard reported that AIDEA believed that increasing the number of board members would allow for rural representation without stipulating geographic areas. He assured the committee that the board would promulgate by-laws to broaden its perspective through representation by rural, urban, and "economically distressed" areas.

Representative Doogan asked whether the bill would allow AIDEA to buy into a portion of a project. He questioned other changes that would be made by the proposition.

[10:08:33 AM](#)

Mr. Leonard explained that HB 410 would allow AIDEA to partner, to change the way rates are set for internally-funded loans, and to set up an incentive-rebate program to incentivize businesses to invest in certain areas to meet economic criteria. The fourth change would improve the agency's rural-development initiative fund by changing the rates and conditions of getting a loan.

Representative Kelly asked whether the current AIDEA board supported the proposition. Mr. Leonard responded that the board did not have a position.

Representative Kelly asked whether the strategic planning mentioned earlier included a board expansion like the one proposed. Mr. Leonard responded that the agency did not think of increasing the board; it was going to use advisory boards because the legislative process was longer and more difficult.

Representative Kelly reminded him of the question for the attorney general's office. He also wanted to know the governor's position.

Co-Chair Stoltze asked whether Representation Kelly wanted to hold the bill. Representative Kelly responded that he did not want to hold it long.

Representative Austerman agreed that the question should be answered before the bill was moved from committee.

Representative Austerman asked whether the board would use advisory boards regardless of the size of the board. Mr. Leonard responded that the agency believed that advisory boards would be needed in either case to give the broad perspective regarding the different industries and the private sector.

Representative Kelly advised having an amendment ready if a change was required because of the governor's position.

[10:12:51 AM](#)

WAYNE STEVENS, PRESIDENT/CEO, ALASKA STATE CHAMBER OF COMMERCE, testified in support of the bill. He detailed that the chamber has had a position over the past four years encouraging the development of a comprehensive strategy for the state. The position includes the goal of having the private sector work more collaboratively with state government to find and develop a strategy so that the state, legislature, administration, business community, and the university would end up at the same place. The chamber viewed the legislation as one part of the direction.

Representative Doogan asked whether the state chamber believed the proposed changes were necessary. Mr. Stevens responded that there are many different and disjointed efforts in economic development arenas. He felt that HB 363 was one part of the effort to bring together an economic strategy for the state.

Representative Salmon asked whether the rural community was part of the larger economic strategy. Mr. Stevens answered in the affirmative.

STEVE HAAGSON, DIRECTOR, ALASKA ENERGY AUTHORITY (via teleconference), reported that he was available for questions.

[10:16:24 AM](#)

Representative Gara queried the different missions of the shared board for AIDEA and AEA and wondered if language was needed to ensure that AEA's mission was met. Mr. Haagson opined that the language was insightful as it spoke to a broad spectrum. He thought the requirement for demonstrated leadership skills was critical. He informed the committee that the two organizations had shared the board for many years. The current board had expertise that worked well for both entities even though their missions were different; AIDEA concentrated on economic growth opportunities and AEA focused on program management for both rural and urban areas.

Co-Chair Stoltze closed public testimony.

Representative Gara cautioned against holding the bill for a position from the governor. Representative Kelly proposed that no answer would be an answer.

[10:19:30 AM](#)

HB 363 was HEARD and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 10:19 AM.