

HOUSE FINANCE COMMITTEE

April 11, 2010

1:13 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:13 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Representative Mike Chenault; Representative Nancy Dahlstrom; Senator Charlie Huggins; Bryan Butcher, Director, Government Affairs and Public Relations, Alaska Housing Finance Corporation, Department Of Revenue; Konrad Jackson, Staff, Representative Kurt Olson, Sponsor; Kevin Brooks, Deputy Commissioner, Department of Administration; Max Hensley, Staff, Senator Johnnie Ellis, Sponsor; Senator Johnnie Ellis, Sponsor; Jon Sherwood, Medicaid Special Projects, Division of Health Care Services, Department of Health and Social Services; James Armstrong, Staff, Representative Bill Stoltze; Jerry Burnett, Deputy Commissioner, Division of Treasury, Department of Revenue; Michelle Rizk, Budget Director, University of Alaska; Wendy Redman, Vice President, Statewide Programs, University of Alaska.

PRESENT VIA TELECONFERENCE

Dan Fauske, CEO/Executive Director, Alaska Housing Finance Corporation, Department of Revenue; Joe Dubler, Director of Finance, Alaska Housing Finance Corporation, Department of Revenue; Jim Lynch, Treasurer, University of Alaska Foundation; Eric Wohlforth, Chair, University of Alaska Foundation Investment Committee; Dr. David Logan, DDS, Alaska Dental Society.

SUMMARY

HB 296 ENERGY EFFICIENCY BONDS; LOANS; FUND

CSHB 296(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached previously published fiscal notes: FN 1(REV), FN 2(DOT).

HB 416 PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS

HB 416 was REPORTED out of Committee with a "do pass" recommendation and with attached previously published fiscal notes: FN 1(LAW), FN 2(UA).

HB 421 PUBLIC EMPLOYEE SALARIES

HB 421 was HEARD and HELD in Committee for further consideration.

HB 424 G.O. BONDS FOR EDUCATION PROJECTS

HB 424 was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal note by the Department of Revenue.

SB 199 MEDICAID COVERAGE FOR DENTURES

SB 199 was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal note by the Department of Health and Social Services and previously published fiscal note: FN2 (DHS).

#hb296

HOUSE BILL NO. 296

"An Act authorizing and relating to the issuance of bonds by the Alaska Housing Finance Corporation; establishing the Alaska energy efficiency revolving loan fund and relating to the fund; authorizing municipalities and the State of Alaska to borrow money from the Alaska Housing Finance Corporation for the purposes of the Alaska energy efficiency revolving loan fund; and providing for an effective date."

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BRYAN BUTCHER, DIRECTOR, GOVERNMENT AFFAIRS AND PUBLIC RELATIONS, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, reported that HB 296 would allow Alaska Housing Finance Corporation (AHFC) to establish an energy efficiency revolving loan fund through bond sales of up to \$250 million. He stated that \$28.3 million was appropriated to the State Energy Program from the federal government stimulus funds [American Recovery and Reinvestment Act]. The state would use \$18 million of the funds to leverage the program. The program was approved through the U.S. Department of Energy. He explained that municipalities, school districts, or state entities could take out a low interest loans from AHFC to perform energy efficiency work to public buildings, as prescribed by a mandatory energy audit. The audit would be carried out by an energy performance contractor. The loan would be repaid by the energy costs savings achieved through the energy efficiency improvements. He added that if the savings, as determined by the audit were not achieved, the contractor would be responsible for the loan payments. He pointed out that the public entity would realize budget savings by increasing energy efficiency in public buildings.

Representative Austerman asked who the contractor would be. Mr. Butcher explained that established energy performance contractors would perform the audit and hire subcontractors to perform the work. The corporation estimated that approximately 2,500 jobs will be created.

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Representative Gara wondered how long the loan period was. He expressed concern that a long loan repayment period i.e., twenty years could diminish any initial savings. Mr.

Butcher indicated that the loan tends to extend for shorter periods since the amount of loan improvement money fronted should compare with the energy savings realized over an estimated number of years, with the possibility of early repayment, if additional energy costs savings are realized.

Representative Gara asked why the bond program costs \$18 million. Mr. Butcher explained that AHFC was required to have a two percent minimum debt service reserve; five million is the required minimum for \$250 million. He added that the additional leveraged funds of \$18 million will help reduce interest rates. He noted that the U.S. Department of Energy complemented the program for being self-sustaining ensuring the longevity of the program.

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DAN FAUSKE, CEO/EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE (via teleconference), supported Mr. Butcher's testimony.

Co-Chair Stoltze requested discussion on the fiscal note FN 1 (REV). Mr. Butcher relayed that the corporation submitted a zero fiscal note; no additional expenditures are anticipated.

Representative Fairclough wondered if the state will set energy efficiency standards or goals. Mr. Butcher stated that AHFC was developing regulations to achieve energy efficiency standards statewide.

Vice-Chair Thomas felt that AHFC had good energy efficiency standards for homes and hoped for similar standards for public buildings. Mr. Butcher agreed. He added that \$2 million was set aside to work with the Alaska Energy Authority to make their energy efficiency software applicable to public buildings as well as residences.

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Representative Doogan inquired further about interest rates.

JOE DUBLER, DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE (via teleconference), replied that the interest rate was dependent on the terms of the loan, determined by the length of the payback period

and amount borrowed. He expected the rate to be low based on tax exempt debt on municipal or state buildings.

Co-Chair Hawker opened and closed public testimony.

Representative Austerman inquired further on interest rates. He wondered why the interest rates were variable. Mr. Dubler responded that the longer length of the loan the greater the risk. He exemplified a municipality that needs a five year loan as opposed to a municipality that needs a fifteen year loan and stated that a longer loan requires paying a higher return.

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Co-Chair Hawker summarized that not all borrowers are equal.

Mr. Dubler agreed and added that not all loans are equal as well. He exemplified that interest on a mortgage loan for fifteen years is half of a percent lower than a thirty year loan. It is a standard risk component built in to fixed-rate debt.

Representative Fairclough wondered if the operating costs of new technologies such as, a high efficiency boiler are imbedded into the formula to determine energy cost savings.

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Mr. Butcher answered that AHFC was still in the process of deciding how the program will be administered.

Representative Kelly asked for more information about how the \$18 million would be leveraged and how AHFC would establish interest rates for specific loans. Mr. Dubler explained the process. He stated that AHFC would evaluate each loan, use available funds from the initial \$18 million and set the borrower's interest rate at what the interest rate would be if bonds had been sold. The corporation does not intend to issue bonds until program demand increases and more capital is needed. The corporation would not make a profit off the program; the purpose is only to weatherize buildings throughout the state. The interest rates would be higher for long term debt because the bond purchasers demand a higher interest rate for a longer term bond. He surmised that in the bond market AHFC would borrow nine to

ten year debt to cover the eight to ten year loans they are financing. He concluded that the \$250 million is the eventual estimated total to get the fund revolving and continue for many years.

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Vice-Chair Thomas noted that the Regional Education Attendance Areas (REAA) in his district was struggling financially. He wondered what they would use for collateral and how it could realistically help them with skyrocketing energy costs in rural areas. Mr. Butcher acknowledged that other states do not have the challenges rural Alaska has. He pointed out that the school administrator would not have to come up with any additional funds. The energy savings would offset the loan repayments. Vice-Chair Thomas opined that the school district would rather pass savings on to their teachers or that energy prices would surge again and use up the savings, requiring state assistance to repay the loan.

Vice-Chair Thomas MOVED to report CSHB 296(ENE) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 296(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached previously published fiscal notes: FN 1(REV), FN 2(DOT).

#hb416

HOUSE BILL NO. 416

"An Act adopting and relating to the Uniform Prudent Management of Institutional Funds Act; relating to the investment of money for charitable purposes by institutions, including governmental institutions; and relating to the University of Alaska."

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KONRAD JACKSON, STAFF, REPRESENTATIVE KURT OLSON, SPONSOR, stated that HB 416 would allow the State of Alaska to adopt the Uniform Prudent Management of Institutional Funds Act (UPMIFA). He briefly summarized the history and events that led to the legislation. The State adopted the Uniform

Management of Institutional Funds Act (UMIFA) in 1972. In 2006, UMIFA was revised and up-dated to UPMIFA and has been adopted by all but six states and Puerto Rico. UPMIFA brings two changes to institutional funds management and endowment accounting: first, is the elimination of the historic dollar value as a benchmark for endowment spending and the amount identified for accounting purposes as permanently restricted net assets; secondly, clarification of the legal classification of earnings. He continued that UPMIFA incorporates the experience gained in thirty five years under UMIFA and adoption will bring the state current with updated fiduciary practices. He stressed that UPMIFA is default legislation; other provisions in law in donor agreements or governing instruments supersede UPMIFA.

Co-Chair Hawker asked what state savings accounts or activities would be affected by the legislation.

Mr. Jackson surmised that none would be affected. He thought that the state had governing provisions for all of their funds. He emphasized that governing instruments supersedes uniform prudent management language.

Co-Chair Hawker asked who would be affected within the state structure.

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Mr. Jackson noted that endowments within the University of Alaska are among funds that would be affected.

Co-Chair Hawker opened public testimony.

JIM LYNCH, TREASURER, UNIVERSITY OF ALASKA FOUNDATION (via teleconference), stated he has been managing the University's endowments for approximately twenty five years. He reiterated that the legislation sets out responsible practices and standards for investment and management and provides essential guidance for the administration of endowments and charitable funds. He indicated that it reduces the exposure of fund administrators to legal challenges. The state does not offer guidance or standards to deal with institutional funds. He summarized that UPMIFA delineated current practices that are used nationally.

Mr. Lynch added that there were two UPMIFA provisions that were specifically applicable to the university: management of endowments, and the clarification that state fiduciary rules apply to the university.

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Mr. Lynch noted support for UPMIFA from non-profits such as the Rasmussen Foundation. Mr. Lynch remarked that various state funds are all heavily regulated by the state and would not be affected by the legislation. He noted UPMIFA mostly applies to non-profits, and municipalities.

Co-Chair Hawker surmised that UPMIFA would have a greater impact on the non-profit public sector. He wondered if the legislation would impose new duties or additional burdens to small organizations in the private sector. Mr. Lynch felt that it would assist non-profits by clarifying their fiduciary responsibilities. The guidelines help non-profits manage the funds in accordance with the donor's intent.

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ERIC WOHLFORTH, CHAIR, UNIVERSITY OF ALASKA FOUNDATION INVESTMENT COMMITTEE (via teleconference), contended that the legislation was important and would be consistent with most other states. He noted that many donors are out of state and use to their own state's endowment administration rules. Additionally, many small university endowments are governed by old-fashioned rules that do not permit payment of scholarships. Those funds would become available for the payment of scholarships with adoption of the legislation. Finally, he was assured by the fact that the bill was default legislation.

Representative Fairclough asked if UPMIFA addressed situations where the organization would like to change the purpose of the endowment. Mr. Lynch related that the rules require that the institution would have to ask a court for permission to change the purpose of an endowment. However, an expedited procedure exists for an endowment that is under fifteen thousand dollars and over twenty years old. The non-profit organization must notify the attorney general's office as to the intent to change or to modify restrictions on the endowment.

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Co-Chair Hawker closed public testimony

Co-Chair Stoltze MOVED to report HB 416 out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

HB 416 was REPORTED out of Committee with a "do pass" recommendation and with attached previously published fiscal notes: FN 1(LAW), FN 2(UA).

#hb421

HOUSE BILL NO. 421

"An Act relating to the compensation of certain public officials, officers, and employees not covered by collective bargaining agreements; and providing for an effective date."

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KEVIN BROOKS, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, reported that negotiations had concluded resulting in voluntary agreements between the state and the five unions that represent state employees. He noted that HB 421 provided a similar wage increase for non-covered employees in the executive, legislative, and judicial branches.

He summarized the contents of the legislation by section. Section 1, of the bill represents a two percent increase to the FY 2010 salary schedule to begin in FY11. Sections 2 and 3, of the bill provide for similar increases in FY12 and 13. Section 4, addresses a similar wage increase for employees of the executive branch. Section 5, provides for a comparable two percent increase for employees of the court system. He pointed out that the executive and judicial branches do not use the legislature's wage range classification. Section 6, clarified that the University of Alaska employee's wage increases are determined by the Board of Regents. Section 7, provides for an effective date of July 1, 2010.

Co-Chair Stoltze announced that the wage increase does not apply to elected officials. Mr. Brooks affirmed.

Representative Austerman asked for clarification of the wage increase. Mr. Brooks restated that the wage increase was two percent for FY 2011, FY 2012, and FY 2013.

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Co-Chair Hawker questioned the wage increase when the state economy is struggling and with record-high unemployment rates. Mr. Brooks replied that the department was aware of the economic climate and the issues were prevalent in discussions with the labor unions. The contracts reached with unions were relatively modest compared with contracts in past years. He argued for parity for similarly situated state employees not covered by unions.

Co-Chair Hawker appreciated acknowledgement of the dilemma. He believed the court system employee's compensation was relatively low. He wondered if it was possible to approve the fiscal note for the court system but not for the executive and legislative branches.

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Mr. Brooks expressed uncertainty regarding the procedure to make the change.

Co-Chair Hawker wondered what would happen if the committee passed out the bill but zeroed out the fiscal notes for the executive and legislative branches. Mr. Brooks thought that the money would have to be taken from other sources of funding in the executive and legislative budgets. The bill would authorize the expenditure for all three branches of government.

Representative Kelly asked what the rate of inflation was estimated to be in the next three years. Mr. Brooks reported that the department did not attempt to project the consumer price index (CPI) in relation to the wage increases.

Representative Fairclough cited page 37, Article 12 of the Alaska Constitution that addresses the merit system. She asked if the wage increases in HB 421 were based on the merit system as described in the constitution. Mr. Brooks believed that it was consistent with Article 12. However, the wage increases were mostly associated with cost-of-living adjustments.

Representative Fairclough opined that it was difficult to award merit pay to outstanding employees through the established system. Mr. Brooks thought that the state's pay system was consistent with the merit principals set forth in the constitution.

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Representative Fairclough hypothesized the situation of a zero-based budget without increases and asked if an administrator had the flexibility to change an employee's pay within the existing structure by changing steps or ranges. Mr. Brooks stressed that it was important to distinguish between statutory employees and those covered under collective bargaining agreements [unionized]. He affirmed that the rate of pay can be changed administratively through individual job reclassifications.

Representative Gara relayed that the average rate of inflation over the last three years was 2.7 percent. He believed that a "meager" two percent wage increase fails to keep up with the cost of living. He was supportive of the increase and wished it was higher.

Representative Austerman asked when the last salary increase was. Mr. Brooks answered that the previous three fiscal years had increases of five and one half percent the first year and three percent the following two years. Representative Austerman asked if the inflation rate was 2.7 percent over the last three years. Mr. Brooks affirmed.

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Co-Chair Hawker pointed to Section 6 of the bill and inquired about the absence of a fiscal note for the University of Alaska. Mr. Brooks answered that the University of Alaska was not included in HB 421. Co-Chair Hawker wondered why the Section exists. Mr. Brooks supposed it was a clarifying section. He implied that it could be removed.

Co-Chair Hawker wondered if the rules that determine how the legislative branch sets the range increments are referenced in the legislation. Mr. Brooks related that the legislative staff pay rules are covered under the reference to Title 24 on page 1, line 9 of the bill.

HB 421 was HEARD and HELD in Committee for further consideration.

#sb199

SENATE BILL NO. 199

"An Act providing for a two-year funding cycle for medical assistance coverage for dentures."

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AT EASE

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SENATOR JOHNNIE ELLIS, SPONSOR, explained that the legislation would allow clients covered under the Medicaid Adult Preventative Dental program (APD) to get a complete set of upper and lower dentures in same fiscal year. He remarked that this would allow the client to "chew their food." The plan to divide the denture benefit into two fiscal years was adopted as a cost savings measure. He shared a personal story of a constituent's experience needing dentures under adult dental Medicaid that spurred his involvement with the legislation. He relayed that the constituent was distraught and contemplating suicide because he could not eat or speak clearly without teeth. Acquiring half a set of dentures was useless and prolonged his misery for an entire year. He believed that there will be a cost savings to the program with the legislation.

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Representative Foster wondered what the intent of the original legislation was; to divide the denture benefit into two fiscal years. Senator Ellis restated that it was a cost containment measure intended to divide the benefit over fiscal years. He felt that overall the program was "great" and well intended but this aspect was not properly considered. He believed that this type of situation created public skepticism toward government and could be easily remedied to restore credibility.

DR. DAVID LOGAN, DDS, DENTIST, ALASKA DENTAL SOCIETY (via teleconference), testified in favor of the legislation. He indicated that the program benefits all parties involved.

The patient's dignity and quality of health would be restored. The dentist would deliver the denture service more effectively by performing the same procedures for a set of dentures once, rather than individually; that also reduces patient travel expenses for multiple visits from rural areas. The efficiency would create cost savings to the state. There would also be a preventative benefit by the removal of diseased and abscessed teeth before infection sets in and requires additional dental and expensive(i.e. emergency room visits) medical services; creating additional cost savings.

Co-Chair Hawker cited the fiscal note for the Department of Health and Social Services, FN2 (DHSS), in the amount of \$935 thousand for FY 2011. He noted that the expenditure decreases to \$467.5 thousand in FY 2012 and is zero for the subsequent years. He wondered if the program has a sunset provision and asked for an explanation of the fiscal note.

JON SHERWOOD, MEDICAID SPECIAL PROJECTS, DIVISION OF HEALTH CARE SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, answered that the sunset on the Adult Preventive Dental program had been eliminated. He furthered that the fiscal note reflects an initial anticipated increase in expenditures as APD provides both upper and lower dentures in the same fiscal year for the first two years. There will be patients receiving their second year denture along with new patients entitled to both dentures in the same fiscal year. The department feels that by the third year the program will have caught up with the initial impacts of the expanded benefit.

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Co-Chair Hawker asked if the demand for the APD program was expected to decline. Mr. Sherwood replied that the fiscal note does not assume a decrease in the out years. Co-Chair Hawker recalled that in the early years of the APD program costs were overestimated. Co-Chair Hawker wondered if the same situation applied to the fiscal note. Mr. Sherwood explained that fiscal notes reflect the department's best reasonable estimate of costs.

Representative Austerman asked what the original estimate of the program's cost was. Mr. Sherwood guessed that it was approximately \$10 million.

Co-Chair Hawker remembered that the original APD bill placed a limit on the aggregate amount of funds available for the program in a year. The aggregate cap was removed from the program when the sunset was eliminated. The utilization of the program was under anticipated costs at approximately \$7.5 million, half of the amount was federal funds and half was general funds.

Representative Austerman asked how much money is currently appropriated for the APD program excluding the fiscal note. Mr. Sherwood did not know. He wanted to clarify that the APD program included many other services besides dentures.

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Co-Chair Hawker reported that the FY 2009 actual expense level was \$5.9 million, and the FY 2010 total appropriation was \$7.3 million. The FY 2008 governors request was \$8.1 million.

Representative Austerman felt that the department should know the amount currently appropriated in the budget for the program. Co-Chair Hawker agreed that the fiscal note request appeared speculative.

Mr. Sherwood explained that the benefit is relatively new and the fiscal note amount was based on a best estimate of the legislations impact regardless of the base amount appropriated.

Representative Gara observed that out of the \$935 thousand fiscal note (FN 2 (DHS)) expenditure, \$626.5 thousand are federal funds and \$308.6 thousand are general funds. He discerned that the "upfront" additional cost for both dentures this year means the expenditures will be that much less next year. He felt that over the long term the same amount of money will be spent and the fiscal note was misleading; it only appears there will be extra costs. He deduced that the initial costs will be leveled out to a zero dollar increment over the long term. He surmised that the department should request additional funds for services provided this year but request less for next year.

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Representative Kelly commented that he agreed with Rep. Gara that the increment "washes out" over time and supports the legislation.

Co-Chair Hawker shared that he authored the initial APD bill because the only dental Medicaid services available for adults was for a crisis situation which the patient had to experience infection or acute pain. He felt that was a "barbaric" system.

Representative Fairclough asked about differences of sixty percent and fifty seven percent in the federal match rate between FY 2011 and FY 2012 depicted on the fiscal note. Mr. Sherwood explained that the decline in the federal match rate in FY 2012 is due to the phasing out of the stimulus funds.

Vice-Chair Thomas asked about the annual denture benefit limit in terms of lost dentures.

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Mr. Sherwood answered that there is a dollar limit on the amount of annual dental benefit, if replacement dentures exceeds the limit a patient would have to wait until the second year. The annual monetary limit is only enough for an upper or lower denture.

Co-Chair Hawker directed attention to the fiscal note, FN 1 (DHS) that was zeroed out in Senate Finance. He noted that the fiscal note had requested a personal services expenditure of \$183.3 thousand for two full time employees. He cited a new fiscal note, from the department in the amount of \$147.9 thousand dollars for one employee for one year. He asked for an explanation of the request. Mr. Sherwood indicated that originally the department thought that the claims processing system could not handle a two year spending limit and that claims would be processed manually. Subsequently, the department was able to come up with a programming solution. The new fiscal note reflects a request for \$50 thousand to enhance the existing claims processing system or the new system that is currently being developed. The remaining amount is for one person to track and process authorizations until the new system can accommodate automated processing. The person will not be hired if the automated system is working.

Co-Chair Hawker asked if the position should be classified as temporary on the fiscal note. Mr. Sherwood affirmed.

Co-Chair Hawker noted that the new fiscal note will become number four when published and adjusted to reflect the position as temporary.

Representative Fairclough informed the committee that dental issues contribute to the suicide rate in the state and she will support the bill.

Co-Chair Hawker MOVED to report SB 199 out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SB 199 was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal note by the Department of Health and Social Services and previously published fiscal note: FN2 (DHS).

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AT EASE

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RECONVENED

#hb424

HOUSE BILL NO. 424

"An Act providing for and relating to the issuance of general obligation bonds in a principal amount of not more than \$1,000,000 for the purpose of paying the cost of education projects for public schools and the University of Alaska; and providing for an effective date."

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Co-Chair Hawker MOVED to ADOPT CS HB 424(FIN) Work Draft 26-LS1649\P as a working document before the committee.

Co-Chair Stoltze OBJECTED for discussion.

JAMES ARMSTRONG, STAFF, REPRESENTATIVE BILL STOLTZE, explained the CS. He stated that HB 424 is a request for a \$384.2 million general fund bond authority and if adopted

would be sent to voters for the November 2010 general election.

Mr. Armstrong presented a brief summary of the legislation by section:

- Section 1, specifies the amount of the bond.
- Section 2, contains the education project fund. He added that is the standard language for bond bills.
- Section 3, relates to the Mount Edgecombe High School aquatic facility in Sitka and the State Library Archives and Museum facility in Juneau that will be bonded in the amount of \$20 million for each project (\$40 million total).
- Section 4, identifies three school replacements and renovations in western Alaska for a total of \$128.5 million.

Co Chair Stoltze interjected that these three schools are referred to as the Kasayulie Schools in reference to the lawsuit and eventual judgment that lead to changes in rural school funding.

Mr. Armstrong continued the sectional presentation with:

- Section 5 identifies the University of Alaska's Valley Center for Art and Learning on the Matanuska Susitna (Mat-Su) Campus, the Community Arena and Athletic Center in Anchorage, the Life Science Classroom in Fairbanks, two projects for the Kenai Campus's student housing and Career and Technical Education Center and the Prince William Sound Community College campus renovation and renewal. Total \$161.8 million.
- Section 6 identifies the Department of Fish and Game's Near Island Research facility {\$20 million} in Kodiak.
- Section 7 names the Department of Commerce, Community and Economic Development grants for a total of \$33.9 million. He noted the list of projects begin on page 4, of the legislation. The

first seven projects are for library construction in Anchorage, Cordova, Kenai, Mat-Su, North Slope, Petersburg, and Seward. The eighth and ninth projects are located on Prince of Wales Island for a vocational education center in Klawock and the Northwest Magnate School and Kotzebue High School in the Northwest Arctic Borough.

- Section 8 appropriates the cost of issuing the bond per the Department of Revenue; total \$4,610,400.

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Mr. Armstrong noted that the bonds were eligible under the Build America Bond Act as part of the federal stimulus program (ARRA); the bonds would need to be sold before December 31, 2010. Upon voter approval the federal government will pay thirty five percent of the interest over the twenty year life of the bond.

JERRY BURNETT, DEPUTY COMMISSIONER, DIVISION OF TREASURY, DEPARTMENT OF REVENUE, clarified that the program was extended through December 2011.

Representative Doogan asked if the identified projects were pieces of projects rather than whole projects. Mr. Armstrong replied that only two University of Alaska projects (projects two and three) were funded in portions, their balance will be included in the capital budget as general funds. In the event the bonds are not adopted by voters the two projects would move forward with previously appropriated cash on hand; \$25 million for an arena on the Anchorage Campus and \$38 million for a life sciences center for the Fairbanks campus.

Co-Chair Stoltze interjected that \$20 million of the existing funds are comprised of University revenue bonds.

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Co-Chair Hawker announced that not all of the bond projects in HB 424 are for entirely new facilities. Many of the projects such as the Northwest Magnet School and library projects are for renovations, improvements, etc. He cautioned against creating public misperceptions.

Mr. Armstrong mentioned that the library projects on page 4 were currently included in the Senate's version of the capitol budget and if approved as part of the bond package, it was the intent of the chair to remove them in the House version.

Representative Doogan asked for more information about the Near Island Research Facility listed in Section 6. Representative Austerman explained that it will be located in Kodiak next to the National Oceanic and Atmospheric Association (NOAA) and the University's Fishery and Technology Center buildings. The facility will house Department of Fish and Game offices, research, and educational facilities.

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Representative Gara cited the university projects on page 3, line 8, and asked what the regent priorities were. Co-Chair Stoltze stated that projects number 2 (Community arena and athletic center) and 3 (Life Science Classroom and laboratory building) were regents priorities. The other projects have been on the regents lists in the past.

Mr. Armstrong pointed out that all of the ten previous bond propositions put forward to voters since statehood had been approved.

Representative Foster underscored the importance of resolving the Kasayulie case and contended that the three school projects were a positive step. He reported that the Alakanuk School was two hundred and twenty percent over capacity.

Co-Chair Hawker relayed that the three school projects in HB 424 were the three top schools by ranking on the school construction list prepared by the Department of Education and Early Development. Mr. Armstrong affirmed.

Representative Gara asked if any projects in HB 424 are included in the Senate version of the capital budget bill.

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Mr. Armstrong listed the seven library projects on page 4, lines 1-12, that are in the Senate version of the capital budget: Loussac Library, Anchorage; Cordova Center and Library Cordova; Community Library expansion Kenai;

Sutton Community Library and Resource Center, Matanuska-Susitna ; Tuzzy Library expansion, North Slope; Public Library, Petersburg; Community library ,Seward.

Co-Chair Stoltze closed public testimony.

Mr. Armstrong cited that the Department of Revenue's fiscal note accompanying the legislation depicts the sum of \$29,095,000 in expenditures for the out years FY 2012 through FY 2016. The amount will be decreased in a revised fiscal note to \$28,773,000.

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Representative Doogan asked if the intent was to find complete funding for the two projects that would only be partially funded by the general obligations bonds, before the end of session. Co-Chair Stoltze affirmed.

Representative Gara requested to hear from the university regarding the university projects. He wondered if the university was in support of the list.

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WENDY REDMAN, VICE PRESIDENT, STATEWIDE PROGRAMS, UNIVERSITY OF ALASKA, responded that the university supported the projects. She noted that the Life Sciences facility in Fairbanks was the major priority for the university this year. The other projects were on campus priority lists.

Representative Gara inquired about the university's priority for funding for engineering buildings. Ms. Redman replied that the university requested \$10 million for planning engineering facilities for the Anchorage and Fairbanks campuses. She reported that the request was not included in the governor's budget. They were considered the most important projects that the university wanted to move forward after the Life Sciences building. The Senate included \$5 million in the capital budget for the Anchorage engineering facility and nothing for Fairbanks.

Co-Chair Stoltze suspected that all the bond projects were on the regents' list at some point.

[6:53:14 PM](#)

Representative Gara voiced frustrations with the shortage of university housing in Anchorage. He felt that more housing at the main campuses of Anchorage, Fairbanks, and Juneau would create a vibrant, statewide university system. Ms. Redman reported that the university created a committee to work on housing in collaboration with AHFC to facilitate the project and to expect a plan to come before the legislature in the near future.

Representative Fairclough reported that she had two boys at the University of Alaska in Fairbanks, in order to avoid any conflicts of interest.

Representative Gara inquired if the \$20 million Department of Fish and Game Near Island facility was a state priority. Representative Austerman explained that the project was the top priority on the capital improvement list for the City and Borough of Kodiak.

Representative Gara wondered if it was a priority for the Department of Fish and Game. Representative Austerman was not certain.

[6:58:51 PM](#)

Representative Fairclough spoke in support of the "Build America Bond" projects. She commented that projects had to be chosen that met the requirements of the program. She voiced that she supported the legislation and liked the concept of the thirty five percent interest payback. She believed the package helped the state save money on these projects.

Representative Salmon wondered if the bond package amount was going to grow. Co-Chair Stoltze stated that he did not think the amount could grow. He felt that there was a limit to the debt threshold the voters would approve. He stated that the legislature would act responsibly and leverage the available federal money over a fair geographical balance in the state according to the constraints of the bond program.

Representative Gara thought that there has been a lot of criticism of the federal government within the state but a readiness to accept federal funds. He pointed out that the bill was an example of something the President has done that was getting people back to work.

[7:02:28 PM](#)

Co-Chair Hawker MOVED to report CSHB 424(FIN) out of Committee with individual recommendations and the accompanying fiscal note.

CSHB 424(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal note by the Department of Revenue.

ADJOURNMENT

The meeting was adjourned at 7:04 PM.