

HOUSE FINANCE COMMITTEE
April 12, 2010
8:15 a.m.

[8:15:52 AM](#)

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:15 a.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 Mark Neuman; Captain John Kenyon, Chief of Prevention Division, District 17, Juneau, US Coast Guard; Greg Winegar, Division of Investments, Department of Commerce; Representative Harry Crawford; Diane Casto, Project Manager, Department of Health and Social Services.

PRESENT VIA TELECONFERENCE

Shirley Gifford, Alcohol Board; Kerry Hennings, Drivers License Manager, Driver Services, Division of Motor Vehicles.

SUMMARY

HB 126 FOSTER CARE/CINA/EDUCATION OF HOMELESS
HB 126 was SCHEDULED but not HEARD.

HB 283 PURCHASE/CONSUMPTION OF ALCOHOL
HB 283 was HEARD and HELD in Committee for further consideration.

HB 294 USE, REGULATION, AND OPERATION OF BOATS
CS HB 294 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN1 (DNR)

HB 410 AIDEA LOANS
HB 410 was SCHEDULED but not HEARD.

HB 412 MICROLOAN REVOLVING FUND
CS HB 412(FIN) was REPORTED out of Committee with no recommendations and with previously published fiscal note: FN1 (CED)

[8:16:00 AM](#)

#hb294
HOUSE BILL NO. 294

"An Act amending the termination date of certain statutes relating to the use, operation, and regulation of boats, a uniform state waterway marking system, and civil liability for boat owners; providing for an effective date by amending the effective date of secs. 3, 5, 7, 9, 11, 14, 16, 18, 20, 23, 26, and 27, ch. 28, SLA 2000, as amended; and providing for an effective date."

[8:17:58 AM](#)

Vice-Chair Thomas MOVED CS HB 294(FIN), 26-LS1282\E as a working document.

Co-Chair Stoltze OBJECTED for the purpose of discussion.

REPRESENTATIVE MARK NEUMAN presented an overview of the bill. He noted that he worked closely with the United States Coast Guard on the legislation, which includes the Kids Don't Float program.

Co-Chair Stoltze asked if the bill remains unchanged and HB 294 merely extends the sunset. Representative Neuman concurred.

[8:19:07 AM](#)

CAPTAIN JOHN KENYON, CHIEF OF PREVENTION DIVISION, DISTRICT 17, JUNEAU, US COAST GUARD discussed the recreational boating safety program. The goal of the program is to encourage boating safety and education in the state. The program distributes funding for the safety program. The program produces educated boat owners. In 2009, 12 Alaskans lost lives, which is the lowest number since inception of the program. The program saves lives and promotes safe use of the waters.

Co-Chair Stoltze stated appreciation for the Coast Guard and their work on the bill. He stressed the lack of controversy regarding the Kids Don't Float program or the Coast Guard.

[8:24:11 AM](#)

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, CS HB 294(FIN), 26-LS1282\E was adopted as a working document.

Co-Chair Stoltze spoke to the fiscal notes and the impacts.

Vice-Chair Thomas MOVED to report CS HB 294(FIN) out of Committee with individual recommendations and the accompanying fiscal note.

CS HB 294 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN1 (DNR)

[8:25:56 AM](#)

#hb412

HOUSE BILL NO. 412

"An Act establishing the Alaska microloan revolving fund; making loans for commercial purposes from the fund; and relating to the fund and loans; and providing for an effective date."

GREG WINEGAR, DIVISION OF INVESTMENTS, DEPARTMENT OF COMMERCE spoke to the bill. The loan program is modeled after a similar program sponsored by the Small Business Administration (SBA) currently available in 46 states. Alaska has yet to develop a comparable loan program as an intermediary lender is currently unidentified. The loans would include up to \$35,000 for an individual and \$70,000 for two or more residents. The proceeds would be available for working capital, equipment, construction, and improvements. The interest rate would be prime plus one with a floor of six and a ceiling of eight. The maximum term is six years. The submitted fiscal note includes \$3.5 million from Alaska Industrial Development and Export Authority (AIDEA) contingent on the passage of HB 411. The fund would be established as a revolving fund. With the initial capitalization, 75 loans are possible in the first year and 100 in the second, with 25 loans per year on an ongoing basis thereafter.

[8:28:32 AM](#)

Representative Fairclough asked about time constraints for residency requirements listed on Page 3, Line 14-16. Mr. Winegar responded that the requirements span a 12 consecutive month period. Representative Fairclough interpreted the section differently. Mr. Winegar suggested a language change to better communicate the 12 month time period.

Vice-Chair Thomas recalled multiple definitions of residency.

[8:30:32 AM](#)

Representative Doogan believed Representative Fairclough was right. He provided three different definitions of residency.

Representative Gara suggested a conceptual amendment imposing the one year period used for the Permanent Fund Dividend (PFD).

Representative Fairclough clarified that the bill states that a person may not have declared residency elsewhere. She noted that people migrate to Alaska occasionally seeking business loans.

Vice-Chair Thomas stated that the definition of residency at the university is similar to that of the PFD requirement.

[8:33:16 AM](#)

Representative Doogan commented that the agency must understand the expectation of a clarifying amendment. Mr. Winegar offered to communicate with the agency.

Representative Fairclough stressed a time commitment.

Representative Kelly requested a list of others concerned with the bill. Mr. Winegar responded that discussions with multiple banks did not result in much concern regarding the lower dollar level.

[8:35:48 AM](#)

Representative Gara asked about the eight percent cap. Mr. Winegar agreed that the cap could be removed. He explained the goal of maintaining a low interest rate.

Representative Gara MOVED Conceptual Amendment 1.

Page 3, line 26, delete after per year:

"and not more than eight percent per year;"

Representative Austerman OBJECTED for discussion. He discussed the establishment of acceptable interest rates for these loans.

Mr. Winegar stated that the prime rate is three and one quarter so prime plus one would be four and one quarter with a basement of six. If prime plus one went higher than eight percent, then eight percent would be the cap.

Representative Doogan understood that if the prime rate was three and one half or four and one half, a loan is not possible because the number is less than six.

Mr. Winegar explained that the language reads prime plus one with a floor of six percent.

Representative Doogan understood the intention of the amendment yet was not clear on the purpose. If the prime rate is four and one half plus one, why would the loan be at six percent? Mr. Winegar responded that six was the decision for the floor as risk and cost must be factored in.

[8:40:15 AM](#)

Representative Austerman continued to object to the amendment. He believed that the reason for the loan was the fostering of economic development. He stated that a higher interest rate makes it more difficult to pay back the loan. He opined that an eight percent cap with a \$35 thousand loan allows a wonderful opportunity for the business sector.

Representative Kelly believed that the committee discussed the topic in a prior meeting. Mr. Winegar agreed.

Representative Kelly stated that he does not support the eight percent cap. The intention of the loans is not to compete with the banks. He understood the floor, as the loans are often offered to those unable to receive traditional bank loans.

Representative Foster asked if the cost of capital rises above eight percent, would AIDEA subsidize the loans. Mr. Winegar explained that an opportunity cost would have been lost because the fund is revolving. The money returned is the interest rate for any given time.

[8:43:40 AM](#)

Representative Gara commented that prime plus one is a favorable interest rate regardless of prime. Mr. Winegar agreed.

Representative Fairclough asked if the issued loans are on a fixed versus adjustable rate. Mr. Winegar answered yes.

Representative Fairclough advocated in support of the amendment on the floor to eliminate the eight percent ability to draw down. She opined that offering loans

substantially below the market value is unfair to the private sector.

Representative Doogan understood the range of loans would exist between 6 and 8 percent with the current language in the CS. Mr. Winegar replied yes. He explained that rates are reviewed each quarter and adjusted to create loans on a fixed rate note for the life of the loan.

Representative Doogan continued that the amendment would create a rate between six and infinity. He asked if the legislature would make the change to allow the interest rate to float up why is the committee concerned about loans where interest rate floats down. Mr. Winegar responded risk and operating costs.

[8:46:53 AM](#)

Representative Doogan expressed confusion. He believed that if the interest was lower, the risk was lower. He opined that the risk calculation was backwards.

Mr. Winegar agreed that six percent may not be the correct number. Adding one point to three and one quarter percent is a very low interest rate when cost and risk are factored in.

Representative Doogan commented that loans for low interest rates lead to eventual balance. Mr. Winegar explained that money is required to operate the program and losses do occur leading to the decision for a moderate interest rate.

[8:50:08 AM](#)

Representative Austerman delivered an explanation of the necessity of interest rates with state or bank loans. Those loan recipients who make their payments balance those who cannot, allowing for cash flow.

Representative Doogan understood that the amendment would allow the state to provide bank luxuries at the low end but not at the high end.

Representative Austerman reminded about the revolving loan program. If the operational cost is covered at six percent there is no need to increase.

Representative Kelly asked if six percent provided a good rate. Mr. Winegar replied yes.

Representative Kelly asked if lowering the percentage would compete with banks. He advocated for six percent and removal of the cap.

[8:52:58 AM](#)

Vice-Chair Thomas reminded that the interest rate was 23 percent in the 1980s. He was in support of the eight percent cap.

Representative Foster stated that his concern was in the state adopting bank like policies. He asked about the interest rate structure with the SBA microloan. Mr. Winegar noted research showing rates at eight percent for SBA in the lower forty eight.

Representative Foster asked about a cap in the other loans. Mr. Winegar believed no, but he was unfamiliar with every plan.

[8:54:49 AM](#)

Representative Gara requested that AIDEA consider the issue and contact the committee with an answer by the end of the day. He stressed that he understood both sides of the argument.

Vice-Chair Thomas recalled the time constraints.

Representative Fairclough suggested a vote on the amendment.

Representative Austerman pointed out that the major banks are not interested in these loans. The objective of the microloan program is to help people who cannot receive traditional bank loans. He stated opposition to the amendment.

Representative Kelly asked if interest rates are fifteen percent and the state is loaning at eight percent, what would happen to the value of the corpus. Mr. Winegar responded that the corpus of the fund will continue to grow.

Representative Kelly asked if the growth would continue with a differential between inflation of three percent. Mr. Winegar responded that the opportunity cost would be lost.

Representative Kelly commented that with inflation of 12 percent, the value of the corpus would decrease by 50 percent.

Mr. Winegar added that the fund might earn more without the restriction of eight percent.

Representative Kelly wondered if the fund would depreciate in real value. Mr. Winegar agreed that when the situation is compared to the opportunity cost, the fund would depreciate.

[8:59:05 AM](#)

Representative Fairclough stated support of the amendment because she wanted to prevent the opportunity for citizens to borrow money for reinvestment at a higher rate elsewhere. Vice-Chair Thomas agreed.

[9:00:03 AM](#)
[9:01:08 AM](#)

AT EASE
RECONVENED

Vice-Chair Thomas restated the amendment.

Representative Fairclough commented on the amendment and the discussion that lifting the cap would open up competition with the banking industry so that people would not access the microloan account and place it in another financial institution to receive a larger rate of return.

Representative Austerman continued to oppose the amendment because of the plea from small businesses expressing difficulty achieving equipment and inventory loans.

A roll call vote was taken on the motion.

IN FAVOR: Fairclough, Foster, Gara, Joule, Kelly, Salmon, Doogan

OPPOSED: Thomas, Austerman, Stoltze, Hawker

The MOTION PASSED (7-4).

[9:05:15 AM](#)

Representative Fairclough MOVED Conceptual Amendment #2

Page 3, line 17, add after "state,"

"in the previous 12 months."

Representative Gara OBJECTED for discussion.

She explained the amendment which would define the time limit established in the bill.

Representative Gara WITHDREW his OBJECTION to Conceptual Amendment #2. There being NO OBJECTION, it was so ordered.

Representative Doogan MOVED Conceptual Amendment #3.

Page 3, line 25 delete after "point"

"but interest may not be less than six percent per year"

Representative Austerman OBJECTED for discussion.

Representative Doogan explained that because the cap was raised with the theory that costs will rise, this amendment would account for the possibility that costs might decrease. He understood that the interest rate created by the amendment would be four and one half percent. The borrowers would receive the same benefit from a lower rate that they might receive as a penalty from higher rates.

[9:09:30 AM](#)

Representative Fairclough spoke in opposition to the amendment. She mentioned the risk to the revolving loan account as the interest collected must be measured against the risk of potential default.

[9:10:34 AM](#)

Representative Austerman objected because he felt that six percent protects the risk aspect.

Representative Gara stated that protection is offered in charging a prime plus one interest rate. He understood the need for a minimum floor, and the negotiable nature of it.

He asked if harm would occur if the minimum floor was five percent.

Mr. Winegar responded that the proposed scenario would increase the risk slightly. He pointed out that prime is the amount loaned to banks from other banks. Prime plus one is an attractive rate in terms of risk.

[9:12:47 AM](#) AT EASE
[9:13:56 AM](#) RECONVENED

Representative Doogan restated the Conceptual amendment #3.

A roll call vote was taken on the motion.

IN FAVOR: Foster, Gara, Doogan,
OPPOSED: Joule, Kelly, Salmon, Thomas, Austerman,
Fairclough, Hawker, Stoltze

The MOTION FAILED (3-8).

[9:15:49 AM](#)

Co-Chair Hawker MOVED to ADOPT Conceptual Amendment #4.

Page 1, lines 5-12, Remove Section 1

Representative Gara OBJECTED for discussion. Co-Chair Hawker explained that the conceptual amendment entails the ability of the drafters to incorporate it into the entire context of the bill.

Representative Gara WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered.

Co-Chair Stoltze MOVED to report CS HB 412(FIN) out of Committee with individual recommendations and the accompanying fiscal note.

CS HB 412(FIN) was REPORTED out of Committee with no recommendations and with previously published fiscal note: FN1 (CED)

[9:17:39 AM](#) AT EASE
[9:18:35 AM](#) RECONVENED

#hb283

HOUSE BILL NO. 283

"An Act relating to the purchasing of and restrictions concerning alcoholic beverages."

REPRESENTATIVE HARRY CRAWFORD spoke to the reasoning behind the bill. He believed that prevention is crucial regarding alcohol related crimes. The bill is directed at identifying those individuals that cannot handle alcohol. The bill restricts a person who commits a felony from purchasing alcohol. The bill also restricts a third misdemeanor directly or indirectly caused by the consumption of alcohol and prohibits the purchase alcohol from a person who is restricted or has a youth driver's license or identification.

[9:23:20 AM](#)

Co-Chair Hawker expressed issues with recent amendments to the bill, particularly Sections 4 and 5. He asked if the sections were added to the original bill. Representative Crawford replied yes.

Co-Chair Hawker stated that Section 5 bothers him because an Alaska citizen turning 21 years of age with a valid driver's license is unable to purchase alcohol until he or she obtains a new license. He pointed out Section 4, which is in existing statute. He wished to remove the section from statute.

[9:25:53 AM](#)

Representative Crawford commented that the operative word is "may" as people will occasionally buy alcohol with their passport because they have the red mark on the license. The red mark indicates alcohol restriction. He explained that a person can drive with a vertical (junior) license following their 21st birthday, but cannot buy alcohol with it.

Co-Chair Hawker recalled certain times in the nation's history where different views regarding equity were observed. He observed insult when a young person returns to Alaska after serving their country in Afghanistan and is unable to purchase alcohol without renewing his driver's license.

[9:31:09 AM](#)

Representative Joule echoed Co-Chair Hawker's point of view. In small communities, one lacks the ability to renew their driver's license without a local Division of Motor Vehicle (DMV) office.

Representative Austerman shared the concerns of Co-Chair Hawker. He opined that a law mandating the presentation of state identification indicating a potential alcohol problem may be more effective. He compared his solution to a "filtration system" for those with known problems with alcohol. He appreciated the efforts of Representative Crawford.

[9:34:23 AM](#)

Representative Crawford stated that these two sections were a high priority for the industry. Currently an alcohol restricted driver's license has red stripe. He spoke of recent contact with a woman who voluntarily deemed herself alcohol restricted with a red mark on her license as she could not control her drinking and believed that this tool would help her. He realized that prohibition of alcohol did not work, but another tool is necessary for those people who have proven that they cannot handle alcohol.

[9:37:51 AM](#)

Representative Gara stated that the bill makes it illegal to use another person's identification to buy alcohol. He opined that Section 4 and 5 make the bill more effective and balanced.

[9:40:08 AM](#)

Vice-Chair Thomas applauded the bill's merits. He shared a personal story regarding lack of identification upon discharge from the military. He echoed the concerns of Representative Joule as his district was also rural and lacking in DMV offices. He expressed sympathy for the military and the rural portion affected by the bill as written.

[9:43:09 AM](#)

Representative Crawford provided a personal story regarding lack of alcohol service without proper identification. He understood that the law can occasionally create inconveniences, but the overall benefits of this bill would

outweigh them. He suggested that military identification would suffice for the purchase of alcohol, but he did not advocate for use of a passport as proper identification when purchasing alcohol.

[9:45:40 AM](#)

Representative Foster echoed the concerns expressed by Representative Joule.

Representative Crawford stated that the industry of package stores in Anchorage requested that a person with a vertical picture on their license be unable to purchase alcohol.

[9:47:47 AM](#)

Co-Chair Hawker pointed out that the amendment as drafted will remove the "illiterate bartender provision." He continued that Section 4 is existing statute and will remain unaffected by the amendment.

Co-Chair Stoltze clarified that bartenders often have a wide variety of education levels. He asked the Alcohol Board about requirements for package stores regarding identification and alcohol.

SHIRLEY GIFFORD, ALCOHOL BOARD (via teleconference) stated that clarification in the bill will prove helpful regarding requirements. She stressed that she was not available to oppose the bill, but instead to answer questions.

Co-Chair Stoltze asked if the current law prevents a package store from requiring an Alaskan driver's license. Ms. Gifford responded yes, beverage dispensaries, package stores, and restaurants set their own policies. The establishments can refuse service to anyone. Licensed establishments tend to protect themselves from potential liability.

Co-Chair Stoltze asked if an establishment could create policy for acceptance or not of military identification. Ms. Gifford understood that the licensees can refuse service to any person.

[9:55:01 AM](#)

Representative Kelly asked if Section 5 was removed, would the ability to force the training program under the new

license be lost. Representative Crawford responded that a person seeking their license must take the training program.

Representative Austerman asked if the time frame comprised of a 90 day period. Representative Crawford clarified that a person has 90 days to renew their license following their 21st birthday.

[9:57:22 AM](#)

Representative Foster revisited the passport issue. He communicated that village DMVs sometimes close for weeks at a time and the hours are often restricted. He opined that the use of a passport would be helpful in that situation.

Co-Chair Stoltze CLOSED public testimony.

[9:58:58 AM](#)

Co-Chair Hawker moved Amendment #1:

Page 2, line 12 through line 29

Delete all material

Renumber following sections accordingly.

Representative Gara OBJECTED for discussion.

Co-Chair Hawker explained that the amendment removes the discriminatory provision of a person who has reached the age of 21 without the opportunity to visit a DMV office for reissuance of a new driver's license. The amendment does not alter existing statute.

A roll call vote was taken on the motion.

IN FAVOR: Joule, Salmon, Thomas, Austerman, Fairclough,
Foster, Stoltze, Hawker
OPPOSED: Gara, Doogan

The MOTION PASSED (8-2).

Amendment 2 was adopted.

Co-Chair Stoltze addressed the fiscal notes from DMV, and the Department of Health and Social Services (DHSS).

[10:02:06 AM](#)

DIANE CASTO, PROJECT MANAGER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES explained the fiscal notes. She stated that very little enforcement of the red striped licenses occurs. The Alcohol Safety Action program works with misdemeanor alcohol offenses. With the bill, increased enforcement leads to increased probation violations. A probation violation leads to additional monitoring including regular urinalysis testing requiring an increase in staff.

Co-Chair Stoltze asked if the amendment has an impact on the fiscal note. Ms. Casto replied no.

Co-Chair Hawker expressed concern about the zero nature of DMV's fiscal note as it creates a net of \$2 million state revenue.

KERRY HENNINGS, DRIVERS LICENSE MANAGER, DRIVER SERVICES, DIVISION OF MOTOR VEHICLES (via teleconference) agreed that the change was positive.

Co-Chair Hawker asked about the fiscal note prepared January 26, 2010 which reflects the additional charge for alcohol restricted licenses with the agency estimating 40,000 additional licenses each year. Ms. Hennings apologized as she was not prepared to answer the question.

Representative Crawford possessed a different fiscal note from DMV stating expenses of \$17,500 with a change in revenue of \$50 thousand.

[10:07:01 AM](#)

Representative Austerman requested committee review of the new fiscal note. He asked if the amendment affects the fiscal note for DMV. Ms. Casto repeated that the amendment does not change the fiscal note. Ms. Hennings added that the amendment does not change the fiscal note for DMV either.

Representative Crawford stated that the fiscal note from DHSS was created before the last committee where the

increase of the fine from \$1000 to \$2000 was amended out.
The former proposal would have increased enforcement.

#hb410

HOUSE BILL NO. 410

"An Act relating to loan participations and development finance projects of the Alaska Industrial Development and Export Authority; and relating to loans from the rural development initiative fund."

HB 410 was SCHEDULED but not HEARD.

#hb126

HOUSE BILL NO. 126

"An Act relating to continuing the secondary public education of a homeless student; relating to the purpose of certain laws as they relate to children; relating to tuition waivers, loans, and medical assistance for a child placed in out-of-home care by the state; relating to foster care; relating to children in need of aid; relating to foster care transition to independent living; and relating to juvenile programs and institutions."

HB 126 was SCHEDULED but not HEARD.

#

ADJOURNMENT

The meeting was adjourned at 10:09 AM