

HOUSE FINANCE COMMITTEE

April 13, 2010

9:46 a.m.

9:46:05 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:46 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

Rob Rule, Staff, Representative Herron; Erin Harrington, Staff, Representative Austerman; Dan Fauske, CEO/Executive Director, Alaska Housing Finance Corporation, Department of Revenue); Bryan Butcher, Director, Government Affairs and Public Relations, Alaska Housing Finance Corporation, Department Of Revenue, AHFC; Ted Leonard, Executive Director, AIDEA; Greg Winegar, Director, Alaska Division of Investments, Department of Commerce, Community and Economic Development, Division Director,; Jim Benintendi, Staff, Senator Olson; Pat Davidson, Legislative Audit; Jennifer Strickler, Division Operations Manager, Division of Corporations, Business, and Professional Licensing, Department of Commerce, Community and Economic Development; Sarah Fisher-Goad, Deputy Director of Operations, Alaska Energy Authority, Department of Commerce, Community and

Economic Development; Steven Haagenson, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority, Department of Commerce, Community and Economic Development; Joseph Masters, Commissioner, Department of Public Safety; Orin Dym, Manager, Forensic Laboratory, Department of Public Safety; Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Matt Tanaka, Crime Lab Project Manager, Department of Transportation and Public Facilities

PRESENT VIA TELECONFERENCE

John Torgerson, Senator, Kenai Peninsula Economic Development District; Kathryn Dodge, Fairbanks North Star Borough; Laurie Holte, Office Of Residential Lending, Alaska Housing Finance Corporation, Department Of Revenue

SUMMARY

HB 426 CRIME LAB

HB 426 was REPORTED out of Committee with a "do pass" recommendation and with a new fiscal note from the Department of Revenue.

HCR 21 ECONOMIC DEVELOPMENT PLANNING COMMISSION

CS HCR 21(FIN) was REPORTED out of Committee with a "do pass" recommendation and with

SB 217 AHFC: VET. BONDS/BLDG; SUBPORT BLDG BOND

CS SB 217(FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN3 (REV)

SB 300 AIDEA LOANS

CS SB 300(FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published zero fiscal notes: FN1 (DCED), FN2 (REV), FN3 (DOT)

SB 301 POWER PROJECT FUND

SB 301 was REPORTED out of Committee with a "do pass" recommendation with previously published fiscal notes: FN1 (DOT), FN2 (REV), FN3 (CED), FN4 (CED)

SB 247 EXTENDING BOARD OF PHARMACY

CS SB 247(L&G) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN2 (DCED)

SB 248 EXTEND BD OF MARITAL & FAMILY THERAPY

CS SB 248(L&G) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN2 (DCED)

#hcr21

HOUSE CONCURRENT RESOLUTION NO. 21

Creating and relating to the Economic Development Planning Commission.

[9:46:48 AM](#)

ROB RULE, STAFF, REPRESENTATIVE HERRON, stated that HCR 21 is sponsored by the House Community and Regional Affairs Committee. He explained that the legislation would create an eleven member task force from the public and private sectors to make recommendations to the state in its efforts to support economic development. The commission would serve as a filter and a bridge to assist the state through economic development processes. He referred to the handout "HCR 21 - Creating an Economic Development Planning Commission"(copy on file). He noted that page two summarizes the current statewide economic development processes as the Alaska Forward Project led by the Alaska Partnership for Economic Development (APED). He reported that APED completed phase 1 of the project; a situational analysis of the economic development in Alaska. In addition, the governor's Legacy Plan created by administrative order under Governor Palin is also part of the economic development process. The Legacy Plan created working groups to study Alaska industries, e.g. tourism,

mining, etc. He indicated the Alaska Forward and Legacy projects will merge in the future.

He referred to page 3 that defines the Economic Development Planning Commission eleven member structure and appointment authority.

- One State Representative appointed by House Speaker
- One State Senator appointed by Senate President
- Two Public Members appointed by House Finance Chairs
- Two Public Members appointed by Senate Finance Chairs
- One Public Member appointed by House Minority Leader
- One Public Member appointed by Senate Minority Leader
- DCCED Commissioner appointed by Resolution
- DLWD Commissioner appointed by Resolution
- President of APED appointed by Resolution

Mr. Rule cited page 4; possible recommendations to the legislature by the commission. He noted that the commission could identify financial tools such as loan programs, tax incentives and other policies to nurture industry in Alaska.

He relayed the commissions Timelines listed on page 5.

- April 30, 2010: Commission Begins Work
- Spring 2010: Alaska Forward Phase II Launches
- January 30, 2011: First Legislative Report Deadline
- December 15, 2011: Second Report Deadline
- June 30, 2012: Sunset

He concluded that page 6 identifies the need for cohesion for economic planning and development in Alaska.

[9:51:39 AM](#)

Co-Chair Hawker wondered if the commission is it too large to be efficient.

ERIN HARRINGTON, STAFF, REPRESENTATIVE AUSTERMAN, stated that the size of the commission represents an attempt to draw members from all sectors of industry.

Co-Chair Hawker opined that it is a well balanced commission.

Co-Chair Stoltze asked what would happen with a minority appointment if one legislative body did not have a recognized minority.

Mr. Rule did not know the answer. He stated that scenario was not anticipated.

[9:53:10 AM](#)

Ms. Harrington offered that the minority appointments were added by the Labor and Commerce Committee.

Co-Chair Stoltze stated that he asked the question because the uniform rule describes what a minority is.

[9:53:58 AM](#)

Vice-Chair Thomas asked where the commission's efforts would be concentrated. He expressed concern that rural Alaska might be overlooked. Ms. Harrington related that in reviewing the work done previously by Alaska Forward considerable attention was paid to the needs of rural Alaska. She expected continued attention to rural Alaska's needs because APEC is comprised of Alaska Regional Development Organizations (ARDOR). ARDOR's membership is regionally distributed throughout the state that includes representation in rural Alaska.

Vice-Chair Thomas reiterated his concerns.

[9:56:18 AM](#)

Representative Foster wondered what efforts the commission would make to ensure that rural Alaska is included in the commission's process. Ms. Harrington reported that the actual workings of the commission would be determined when it convenes for the first time to make those types of decisions. The fiscal note provides for travel and teleconferences.

[9:57:51 AM](#)

Representative Austerman stated that "nowhere in the resolution does it talk about rural versus urban". He noted that on Page 3, line 1, the resolution speaks to the entire

state. He reiterated that Alaska Forward is made up of ARDORS based all over the state. He felt that if HCR 21 is given a chance it should work for the entire state and not only urban areas.

[9:59:02 AM](#)

Vice-Chair Thomas related concerns about the timber industry in Southeast Alaska. He worried that the commission could recommend policies that do not support economic activity in rural communities. Representative Austerman pointed out that the purpose of the commission is only to make recommendations to the legislature and not create policy statements. He also suggested that Representative Thomas try to get appointed to the commission by the Speaker of the House. Vice-Chair Thomas reiterated his concerns about lost jobs, economic hardships, and crime in his district due to lack of economic opportunity.

[10:02:46 AM](#)

Co-Chair Stoltze opened public testimony.

JOHN TORGERSON, SENATOR, KENAI PENINSULA ECONOMIC DEVELOPMENT DISTRICT, ALASKA PARTNERSHIP FOR ECONOMIC DEVELOPMENT EXECUTIVE COMMITTEE (via teleconference), supported the legislation. He believed that an effort to focus all of the different economic development strategies in the state is a good idea. The presence of legislators on the commission would be especially helpful to move the task force's recommendations forward.

KATHRYN DODGE, FAIRBANKS NORTH STAR BOROUGH ARDOR, ALASKA PARTNERSHIP FOR ECONOMIC DEVELOPMENT, VICE PRESIDENT (via teleconference), supported the bill. She welcomed the heightened level of engagement between the private sector and the legislature. She believed it would strengthen the strategic planning development effort and spur implementation of the plans and policies resulting from the effort.

[10:05:48 AM](#)

Representative Foster wondered how active the ARDOR's are in the state. Ms. Dodge answered that the Borough's ARDOR board meets ten times a year. The ARDOR regularly meets

with other economic development organizations at least once a month.

Co-Chair Stoltze closed public testimony.

Co-Chair Hawker referenced the new fiscal note that creates one full time position for the Legislature, appropriated from the Legislative Council budget, to implement and manage the commission. He felt that the increase was unnecessary if the legislation passed and the commission is established. He suggested that there is adequate fiscal and human resources existing within the legislature's budget. He requested that the committee prepare a zero fiscal note with the caveat that the funds for the position are appropriated out of the Legislature's existing budget and not limit that the funds are allocated from a specific committee.

Representative Austerman raised the question whether page 1; line 16 of the resolution must be corrected.

Co-Chair Hawker offered conceptual Amendment 1. He requested that on page 1, line 16, delete "Legislative Council" from "(Alaska Legislative Council)" and replace it with "Alaska legislature". The change would read; "Further Resolved that the (Alaska Legislature) shall provide adequate..."

There being no objection conceptual Amendment 1 was adopted.

Representative Kelly commented that there are too many organizations in the state working on economic development. He suggested that the commission's first task should be to eliminate half of them. Representative Austerman stated that the commission's main task would be to coordinate all of the economic development efforts in the state. Representative Kelly felt that economic development was important but recommended to determine the most effective entities and eliminate the rest.

[10:11:50 AM](#)

Representative Austerman MOVED to Report CS HCR 21(FIN) out of Committee with individual recommendations and the accompanying revised fiscal note. There being NO OBJECTION, it was so ordered.

CS HCR 21 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with the revised fiscal note.

#sb217

SENATE BILL NO. 217

"An Act relating to the issuance of state-guaranteed revenue bonds by the Alaska Housing Finance Corporation to finance mortgages for qualifying veterans; and providing for an effective date."

[10:14:08 AM](#)

BRYAN BUTCHER, DIRECTOR, GOVERNMENT AFFAIRS AND PUBLIC RELATIONS, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, stated that the house version of the bill (HB 291) was heard before the committee earlier this session. He explained that SB 217 would request the voters approve \$600,000,000 in state guaranteed bonds in the 2010 general election, to be issued by the Alaska Housing Finance Corporation for the purchase of mortgage loans made to qualifying veterans. He added that federal law requires that general obligation bonds must be issued by the state for this loan program. The veteran's loan program is the highest performing loan program in the state. Alaska is one of five states that qualify for the program.

Mr. Butcher furthered that the Senate added two provisions to SB 217 that were not included in HB 291. The Senate authorized the purchase of the building that the AHFC currently inhabits at 4300 Boniface parkway in Anchorage. The corporation would realize long-term savings to purchase instead of leasing the building. In addition, the Senate authorized the corporation to purchase or construct a Public Housing Intake Center. The current center located on International Boulevard in Anchorage is an aging, ill-equipped building with insufficient parking. The building is not located on a bus route which makes it a difficult location for public housing clients. The cost to bring the building up to code far exceeds the value of the building.

Mr. Butcher reported that AHFC currently has \$3.5 million in federal and corporate funds to pay for the building; no additional funding is required from the state. The

corporation would relocate the center to the centrally located neighborhood of Mountain View.

DAN FAUSKE, CEO/EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE), interjected that AHFC had been fully authorized to proceed with the \$3.5 million funding for the project for several years. He believed that it was the right project to expend the funds.

Co-Chair Hawker reported that the same project was proposed last year. He asked for assurance that there was no increase in costs that occurred over a year. Mr. Fauske replied that no increase has occurred. He added that the project represents an economic gain for the corporation.

[10:17:16 AM](#)

Representative Doogan inquired about the fiscal note, FN 3 (REV), analysis that estimates the 4300 Boniface Parkway purchase in the amount of \$14.5 million. Mr. Fauske elaborated that AHFC presently owns land at 34th Ave. and Denali St.; the previous home to the AHFC. The Tatitlek Corporation owns the building at 4300 Boniface Parkway and wants to acquire the land at 34th Ave. and Denali St. Therefore, \$5 million will represent a land exchange with the Tatitlek Corporation and the remaining \$9.5 million will be from the sale of AHFC 25 year bonds to complete the purchase and rehabilitate the building.

[10:18:45 AM](#)

Representative Joule referred to the sponsor statement (copy on file) that explained that a veteran must apply for the loan within 25 years of discharge from active duty to qualify for the program. He wondered what impact that had on the exclusion of veterans from the program. Mr. Butcher explained that the program was established in the early 1980's by congress. The initial requirements were that veterans had to have served prior to 1977 and discharged from service for no longer than 30 years. As the years passed the requirements reduced the number of veterans eligible for the program and did not include Gulf War veterans. AHFC lobbied to change the requirements over a 15 year period. The effort met with some resistance in Congress but resulted in the removal of the service prior to 1977 requirement and replaced that with the 25 year

provision. Congress also limited the corporation or state to issue only \$10 million in bonds which was subsequently increased to \$100 million. He noted that AHFC was still working to get the 25 year qualification removed.

Co-Chair Stoltze closed public testimony.

[10:23:14 AM](#)

Representative Foster cited the definition of active duty from the sponsor statement, that service in a military academy may meet the qualifications to participate in the program. He asked what the military academy requirements were.

LAURIE HOLTE, OFFICE OF RESIDENTIAL LENDING, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, (via teleconference), explained that AHFC requests a copy of the veterans DD214 release document as evidence for qualification for the veterans mortgage program. The document indicates whether the veteran has been honorably discharged. She did not know if a cadet that leaves an academy before they graduate receives a DD214.

[10:25:50 AM](#)

Vice-Chair Thomas MOVED to report CS SB 217(FIN) out of Committee with individual recommendations and the accompanying fiscal note.

CS SB 217(FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN3 (REV)

[10:26:41 AM](#) RECESSED
[10:29:57 AM](#) RECONVENED

#sb300
SENATE BILL NO. 300

"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."

[10:30:35 AM](#)

TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, explained the difference between SB 300 and the companion bill HB 410. He stated that an amendment was added to SB 300 in the Senate Finance Committee that adds a new power under AS 44.0880 to the Alaska Industrial Development and Export Authority (AIDEA). The law allows AIDEA to consider the interest of local governments and the impact of financed projects on local governments and to ensure local governments share in the benefits of AIDEA's activities when exercising AIDEA's financial authority. The interest of AIDEA to preserve a healthy financial position and bond rating and the project's economic benefits as well as impact on the community will all be considered.

Mr. Leonard furthered that the new authority is consistent with existing legislative directives embedded in AIDEA's development program. He explained that any development projects AIDEA engages in and issues over \$6 million in bonds requires scrutiny by a regional committee to determine local impact. The same statute also requires a consultation with local communities affected by existing development projects. He summarized that the statute directs AIDEA's board to consider the impacts of development projects on the local community when engaged in any of AIDEA's broad range of economic activities and programs.

[10:33:51 AM](#)

Co-Chair Stoltze questioned the language in the bill on page 4, line 6, that reads;

"Connected by road" does not include a connection by the Alaska marine highway system.

He presumed that the marine highway is not part of the road system and wondered why the language was necessary.

GREG WINEGAR, DIRECTOR, ALASKA DIVISION OF INVESTMENTS, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, DIVISION DIRECTOR, stated that the language been in place since the inception of the Rural Development loan program in FY 2000.

Representative Doogan asked if the Senate changes to the legislation are found in Section 1 of the bill. Mr. Winegar affirmed.

Representative Gara noted that the [Rural Development loan] program does include communities of fewer than 2000 people connected by road systems to Anchorage or Fairbanks.

[10:36:34 AM](#)

Co-Chair Stoltze closed public testimony.

Co-Chair Stoltze noted that there are three zero fiscal notes [FN1 (EED), FN2 (REV), FN3 (DOT)], accompanying the legislation.

Mr. Leonard made final comments in support of moving forward with the legislation.

Vice-Chair Thomas MOVED to report CS SB 300(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CS SB 300(FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published zero fiscal notes: FN1 (CED), FN2 (REV), FN3 (DOT)

[10:38:46 AM](#)

RECESSED

[10:52:28 AM](#)

RECONVENED

#sb247

SENATE BILL NO. 247

"An Act extending the termination date of the Board of Pharmacy; and providing for an effective date."

[10:52:56 AM](#)

JIM BENINTENDI, STAFF, SENATOR OLSON, explained that SB 247 extends the Board of Pharmacy until June, 2018. He reported that the original version of the bill extended the board through June, 2015. The 2018 extension was the date recommended by legislative audit. The change was made in the Senate Labor and Commerce Committee. He furthered that the board is composed of 7 members. The accompanying fiscal

note (FN2 (CED) accommodates travel for members and two staff for three meetings per year.

Mr. Benintendi noted that the legislative audit expressed concern that the department was not sufficiently supportive of the board and that the Governor place more emphasis on board recruitment.

PAT DAVIDSON, LEGISLATIVE AUDIT, reiterated that the board needs increased administrative support from the division and more timely appointments to the board by the Governor's office. She noted that the board had an issue with collaborative protocols. She explained that collaborative protocols are agreements between a physician and a pharmacist that allow a pharmacist to take on activities not usually allowed by the pharmacist, i.e., a flu shot. The board was allowing the activity to continue for longer than stipulated in the agreement. The board agreed to correct the problem. She added that the board is running a surplus and suggested to reduce the board's fees.

[10:57:46 AM](#)

Co-Chair Stoltze asked if the department is committed to improving their support to professional boards.

JENNIFER STRICKLER, DIVISION OPERATIONS MANAGER, DIVISION OF CORPORATIONS, BUSINESS, AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, stated that the division has begun to make major improvements to all of their licensing programs.

Co-Chair Stoltze stressed his concern for continued sufficient support for the important work of professional boards.

Representative Doogan also expressed his concern for increased support of professional boards by the executive branch.

[10:59:00 AM](#)

Representative Foster asked what kind of major improvements are being made by the department. Ms. Strickler explained that the division's cost accounting system for all licensing boards was controlled by one individual who was not qualified. That individual left state government and a

qualified employee was hired. The problems are being resolved and board support has increased.

[11:00:33 AM](#)

[11:00:59 AM](#)

Co-Chair Stoltze closed public testimony.

Vice-Chair Thomas MOVED to report CS SB 247 (L&G) out of Committee with individual recommendations and the accompanying fiscal note.

CS SB 247(L&G) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN2 (DCED)

[11:02:19 AM](#)

#sb248

SENATE BILL NO. 248

"An Act extending the termination date of the Board of Marital and Family Therapy; and providing for an effective date."

JIM BENINTENDI, STAFF, SENATOR OLSON explained that the bill would extend the Board of Marital and Family Therapists until June 30, 2014. The board is composed of three therapists and two public members. The cost of the license is \$775.00 and there are 84 licensees. The legislative audit found that regulations were not kept current and that the board was running a deficit. He noted the board has made significant progress in reducing their deficit down to \$2000 from \$75,000 in FY 2005.

He added that the audit pointed out that the department did not provide enough administrative support and that the governor needed to improve candidate recruitment for the board.

PAT DAVIDSON, LEGISLATIVE AUDIT explained that the division made a four year extension for the board because they discovered that the board was delaying regulation projects and that the board was carrying a deficit. She explained that the reason for a professional board is to assist in keeping the regulations and statutes of the profession up to professional standards. The shorter four year extension was recommended by the division to see if regulations and

fiscal improvements can be made by the board in a timely manner.

Co-Chair Stoltze closed testimony.

Vice-Chair Thomas MOVED to report CS SB 248 (L&G) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS SB 248(L&G) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN2 (DCED)

[11:07:46 AM](#) RECESSED
[1:41:29 PM](#) RECONVENED

#sb301
SENATE BILL NO. 301

"An Act relating to the power project fund; authorizing the Alaska Energy Authority to charge and collect fees relating to the power project fund; authorizing the Alaska Energy Authority to sell and authorizing the Alaska Industrial Development and Export Authority to purchase loans of the power project fund; providing legislative approval for the sale and purchase of loans of the power project fund under the memorandum of understanding dated February 17, 2010; and providing for an effective date."

[1:42:41 PM](#)

SARAH FISHER-GOAD, DEPUTY DIRECTOR OF OPERATIONS, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, introduced the legislation. She explained that SB 201 is an act related to the power project fund that allows the Alaska Energy Authority (AEA) to sell loans from the power project fund to the Alaska Industrial Development and Export Authority, (AIDEA). It also authorizes AEA to charge and collect fees relating to the power project fund. Currently, AEA does not charge application or origination fees. AEA would like to establish an appropriate fee schedule through regulations and a public process.

Ms. Fisher-Goad expounded that the power project fund is an AEA revolving fund that is primarily used by smaller utilities for energy projects. The fund has diminished recently because of increased demand to fund alternative energy projects. The AIDEA purchase of the power project fund loan portfolio would re-capitalize the power project fund with additional funds of approximately \$21.6 million.

Ms. Fisher-Goad concluded that the loan purchase is a way to re-capitalize the power project fund without the use of general funds.

[1:45:53 PM](#)

Representative Doogan queried what the interest rate was on the loans. Ms. Fisher-Goad replied that the statutory rate was the municipal tax exempt rate that varies based on revenue bonds that are currently 5.23 percent. She noted that AEA has the statutory authority to make adjustments to the rate and decrease the interest rate lower than the revenue bond rate.

Representative Austerman asked how much money is currently in the revolving loan fund. Ms. Fisher-Goad answered that the cash value was slightly above \$5 million on February 28, 2010.

Co-Chair Stoltze opened public testimony.

Co-Chair Stoltze closed public testimony.

Vice-Chair Thomas MOVED to ADOPT Amendment 1, (26-GS2974\A.1, Kane, 4/12/10):

Page 1, line 6, following "2010;":

Insert "providing legislative approval for a loan from the power project fund for the Reynolds Creek hydroelectric project;"

Page 3, following line 11:

Insert a new bill section to read:

"*Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to read:

LEGISLATIVE APPROVAL OF LOAN FROM THE POWER PROJECT FUND. Provided the Alaska Energy Authority approves a loan for the Reynolds Creek hydroelectric project, the legislature authorizes the Alaska Energy

Authority to loan \$9,000,000 from the power project fund (AS 42.45.010) for the Reynolds Creek hydroelectric project. This section constitutes legislative approval under AS 42.45.010(j) for a loan from the fund that exceeds \$5,000,000."

Renumber the following bill sections accordingly.

Co-Chair Stoltze OBJECTED.

Ms. Fisher-Goad explained that amendment number one provides for project approval for the Reynolds Creek hydroelectric project. A loan exceeding \$5,000,000 from the fund requires legislative approval.

Representative Doogan asked if the \$5 million approval was exclusively for loan funds or a combination of loan and grant funds. Ms. Fisher-Goad answered that whether the funding is comprised of all loans or a combination of loans and grants legislative approval is needed for a project if the funds exceed \$5 million.

[1:50:56 PM](#)

Representative Kelly asked if the approval for the Reynolds Creek Hydroelectric project interferes in any way with the credit approval process for the loan. Ms. Fisher-Goad replied that it does not. The project is pending AEA approval.

Representative Kelly asked where the project is located.

Vice-Chair Thomas answered that the project is located in Hydaburg on Prince of Wales Island. He noted that Alaska Power and Telephone and Haida Corporation has been working on the project together for several years.

Representative Kelly wondered how close the project was to being ready or were other projects being displaced by this approval. Ms. Fisher-Goad replied that there is one other pending application located in St George. She believed that there will be enough money in the fund for these and other potential projects.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment 1 was ADOPTED.

[1:54:00 PM](#)

Representative Austerman asked for clarification of the approximately \$20.6 million loan purchase by AIDEA for AEA's [outstanding] power project fund loans as described in the fiscal notes [FN3 CED, FN3 CED]. Ms. Fisher-Goad responded that the estimated \$20.6 million represents a discounted amount based upon the future cash flow of the loan payments. The discount rate was established based upon AIDEA's investment rate [return on investments for a three year period ending September 30, 2009]. She noted that the list of loans is included with the "Memorandum of Understanding" ["Exhibit A"] (copies on file). Representative Austerman reiterated that the proceeds from the loan sale will replenish the power project revolving loan fund. Ms. Fisher-Goad affirmed. She added that AEA anticipates increased demand for the power project fund and might need additional loan funds in the future. Representative Austerman wondered what the value of the revolving loan is. Ms. Fisher-Goad responded that the value of the loan fund is approximately \$34 million comprised of available cash and outstanding loans. Representative Austerman asked what the amount of the initial capitalization of the loan fund was. Ms. Fisher-Goad replied that she did not know.

[1:57:07 PM](#)

Vice-Chair Thomas asked if there is a pre-payment penalty if the borrower has the ability to pay the loan off early. Ms. Fisher-Goad answered that no, there is not a pre-payment penalty.

Representative Austerman asked if AIDEA previously bought down the loan to revitalize the revolving loan. Ms. Fisher-Goad negated. Representative Austerman wondered if the revolving loan fund would be able to continue to provide loans if AIDEA did not buy the loans. Ms. Fisher-Goad reported that there is a capital budget appropriation in the Senate version of SB 230 that provides for \$10 million capitalization of the program that would provide funds if appropriated. That would allow the Reynolds Creek project and the project in St. George to proceed but would limit future requests.

Representative Austerman questioned re-capitalizing a revolving loan fund.

[2:00:42 PM](#)

Representative Salmon queried the size of the [Reynolds Creek] project and how many people would be served.

STEVEN HAAGENSON, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that the Haida Energy Company will sell the power to the local utility, AP&T and will generate approximately 25 million kilowatt hours of energy and is a 10 megawatt project. It will provide power for the people of Hydaburg.

Vice-Chair Thomas added that the project will intertie with two existing hydropower projects and provide power for the entire Prince of Wales Island population of approximately 3,000 and several mines.

Representative Doogan asked what the effect of the legislation will have on AIDEA's finances.

TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that the \$20.6 million purchase price represents \$24.7 million worth of the actual value of the loans at the discounted interest rate of 6.02 percent which is equivalent to the rate of return on AIDEA's investments for the last three years. He felt that this was a risk free investment. He believed it was consistent with AIDEA's mission and increases the opportunity to develop more alternative energy projects in the rural areas.

Representative Doogan asked if AIDEA performed an independent assessment of the loan portfolio. Mr. Leonard replied that AIDEA assessed the loans and the risks.

[2:07:33 PM](#)

Representative Austerman asked what the default rate on the revolving loan was.

Mr. Haagenson answered that only one loan was possibly in default.

Representative Austerman queried the need for additional funding for a revolving loan fund. Mr. Haagenson responded that the funds are fully deployed because the program has been popular. AEA anticipates increased use of the program in the future. He stated that HB 306 [page 1, lines 12-

13],["An Act declaring a state energy policy."] [(4) The power project fund (AS 42.45.010) serve as the main source of state assistance for energy projects;] stipulates use of the energy fund as a vehicle to move energy projects forward. He stated that SB 301 is an effort to re-capitalize the fund in order to have more funds available.

Representative Kelly asked whether construction of Reynolds Creek would affect the Power Cost Equalization (PCE) rate. Ms. Fisher-Goad responded that she was not sure if the PCE rate will be impacted.

Vice-Chair Thomas interjected that Gustavus, a community in his district, lowered their energy costs when hydropower became available which lowered their PCE needs.

Representative Kelly requested annual reports to track if hydropower is less expensive than diesel.

[2:11:41 PM](#)

Representative Fairclough asked if AEA has other revolving loan funds. Ms. Fisher-Goad reported that the only other revolving loan fund is the bulk fuel revolving loan program. The program offers nine month loans for communities that must purchase their annual supply of fuel in bulk.

Representative Fairclough asked if AEA adopted regulations, standards and procedures to make the loans. Ms. Fisher-Goad replied that yes, there are underwriting procedures for both loan programs.

Representative Fairclough reiterated Representative Austerman's concerns about why a revolving loan fund requires more capitalization. She wondered if the loan and investment procedures were properly paced in order to recharge the fund.

Mr. Haagenson restated that the requests for loans are outstripping the amount of revenue returning to the fund.

Ms. Fisher-Goad added there are two types of assets in the power project fund; loans receivable and cash. There are presently more assets in loans receivable than cash. The plan is to sell the loans receivable to AIDEA to increase the cash assets to meet increased loan demand.

Representative Fairclough questioned the management intent of the revolving loan funds. Ms. Fisher-Goad pointed out that the bulk fuel revolving loan fund was re-capitalized by the legislature during the special session in 2008. Representative Fairclough reiterated that she does not understand how a revolving loan fund can be spent down. She asked if AIDEA had regulations that would manage the fund so that the cash assets would not be depleted.

[2:16:16 PM](#)

Mr. Haagenson replied the bulk fuel loan funds are based on short-term loans and easier to manage. The power project fund has much longer loan periods, up to 20 years.

Representative Kelly asked if AEA is meeting the reserve requirements for the revolving loan funds. Ms. Fisher-Goad answered that currently there are no delinquencies.

Representative Kelly acknowledged that the fund "has been overtaken by success". He questioned the overall health of the fund. Ms. Fisher-Goad believed the fund was healthy.

Representative Fairclough believed that the fund was not healthy or managed properly since the fund is not revolving. She felt the management authority should have acted more proactively and requested more funding before the cash assets were drawn down. She asked if AIDEA will keep the loan fund revolving.

Mr. Leonard answered that AIDEA is strictly buying the loan portfolio as an investment, and not taking over any role in management of the fund.

[2:20:33 PM](#)

Representative Austerman wondered why AEA is willing to give up \$4 million worth of loan portfolio instead of recapitalizing through the direct appropriation via the capital budget (SB 230). Mr. Haagenson shared that the current route seemed more available than obtaining that amount of general fund money.

Co-Chair Hawker noted that all of the fiscal notes (FN1 (DOT), FN2 (REV), FN3 (CED), and FN4 (CED)) were zero.

Vice-Chair Thomas MOVED to report SB 301 out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SB 301 was REPORTED out of Committee with a "do pass" recommendation with previously published fiscal notes: FN1 (DOT), FN2 (REV), FN3 (CED), FN4 (CED)

#hb426

HOUSE BILL NO. 426

"An Act providing for, relating to, and approving the issuance of certificates of participation for the construction, acquisition, and equipping of the Alaska Scientific Crime Detection Laboratory in Anchorage; providing notice of and authorizing the commissioner of the Department of Administration to enter into a lease-purchase agreement with the Department of Public Safety for the Alaska Scientific Crime Detection Laboratory; and providing for an effective date."

2:24:27 PM

JOSEPH MASTERS, COMMISSIONER, DEPARTMENT OF PUBLIC SAFETY, explained what the crime lab does and urged passage of the legislation. He elaborated that HB 426 provides \$75,750,000 in funding for a new state crime lab. The existing crime lab is outdated and inefficient. A crime lab replacement would provide state of the art scientific analysis of the evidence in a timelier manner that could result in swifter arrests and convictions; enhancing protection for Alaskans. He added that a new crime lab is a key component in the Governor's sexual assault and domestic violence initiative. Sexual assault and domestic violence cases contribute to half of the workload of the crime lab. The new lab is vital to the initiative's goals; to prosecute perpetrators and prevention. He furthered that a new lab will protect the innocent from false accusations with timely processing of evidence and exonerates the wrongly convicted.

Commissioner Masters stated that the new crime lab has the capacity and technology to meet the existing and future crime analysis needs of the state. The current inadequate crime lab is the main reason crime evidence analysis cannot be processed in a timely manner or cannot be processed at the facility at all which creates backlogs and delays. The crime lab has become "reactive" to major crimes only. He reported that a new crime lab would enable a "proactive"

and preventive approach to combating all types of crime. He pointed out that an expected increase in the state population of 140,000 by 2013 will significantly increase demand for the crime lab services.

Commissioner Masters reported that previous legislative approval for leasing a twelve acre site from the municipality of Anchorage for one dollar per year for the next fifty years with an additional twenty five year extension, \$8,000,000 for design work, and \$8,800,000 for site preparation demonstrates past legislative support for the project. He added that the project team trimmed \$20,000,000 from the initial estimated cost. Construction of the crime lab is expected to create 250 jobs and employ fifteen subcontractors.

[2:30:55 PM](#)

Commissioner Masters emphasized the difficulty of putting a price tag on the value of public safety and security for Alaskans.

Representative Austerman asked if the total cost of the lab is approximately \$92.5 million. Commissioner Masters affirmed. He clarified that HB 426 provides \$75,750,000 along with the previous appropriations invested in the replacement lab that totals \$16.8 million.

Representative Foster asked whether future needs were considered in the design. Commissioner Masters replied that the lab design meets current and future needs up to 20 years.

Representative Kelly referred to the earlier proposed project, high cost of the lab, and legislative directives to scale back the project and costs. He noted that was successful and wondered whether the facility would still be adequate. Commissioner Masters noted that nineteen percent of the footprint is shelved space to allow for future expansion and with the flexibility to add new technology and techniques as they are developed.

[2:35:35 PM](#)

Vice-Chair Thomas referred to the high crime statistics in Alaska and queried why the new lab would make a difference.

Commissioner Masters responded that there would be an immediate increase in efficiency of twenty percent, directly related to adequate use of space and equipment for all types work processes and analysis in the lab.

ORIN DYM, MANAGER, FORENSIC LABORATORY, DEPARTMENT OF PUBLIC SAFETY, reported that sexual assault cases are backed up to 2007 and often property crime evidence is not submitted in consideration of the backlog. He emphasized that the crime analysis situation in the state "is so bad". He stated that, "we are the clog in the pipes of justice."

Vice-Chair Thomas asked if the lab would increase cold case capabilities. Commissioner Masters informed that the cold case homicide unit is an investigative unit in the operations department. All of their work that requires scientific analysis is sent to the state crime lab.

Representative Salmon asked if autopsies would be performed at the crime lab.

[2:39:29 PM](#)

Commissioner Masters reported that autopsies are performed at the Department of Health and Social Services lab, which works closely with the Department of Public Safety lab as needed on criminal cases.

Representative Foster asked if equipment is included in the total cost of the lab.

Mr. Dym affirmed.

Co-Chair Hawker opened public testimony.

Co-Chair Hawker Closed public testimony.

Co-Chair Hawker requested discussion of the fiscal notes and the proposed funding mechanism; the certificate of participation concept.

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, stated that the bill authorizes issuance of \$750,000,000 in certificates of participation to fund the crime lab. The amount of \$750,000 is associated with costs to sell the certificates. He explained how the certificates of participation are

secured. The state enters into a subject to appropriation lease with a trustee. The trustee is granted a title position in the facility. The lease is fractionalized into \$5,000 certificates that are similar to bonds but legally distinct from them. The certificates are sold in the same way as any bond issue; by a combination of serial bonds or term bonds that would follow a yield curve from year one to twenty years with various interest rates for the different maturities. The various rates would blend into an aggregated rate estimated at 4.2%. He added that the project would participate in the federal stimulus program [The American Recovery and Reinvestment Act](ARRA) via the Build America Bond Program that would provide direct subsidies by reduction in the annual debt service in the amount of \$300,000 - \$400,000 per annum. The program would allow for the sale of a combination of tax exempt bonds at the short end of the yield curve and taxable bonds at the long end of the yield curve and receive a direct subsidy from the federal government of thirty five percent of the interest expense.

[2:45:58 PM](#)

Co-Chair Hawker asked if market conditions are appropriate for the state to enter into this type of transaction. Mr. Mitchell affirmed. He believed that the financial markets have stabilized and the conditions are favorable for long term debt.

Vice-Chair Thomas if there is a cap on how much stimulus money can be used. Mr. Mitchell replied that there is no limit on the ability to use the bond program.

Representative Fairclough queried if the building is designed to energy efficient standards.

MATT TANAKA, CRIME LAB PROJECT MANAGER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, offered that the building design is complex but energy efficient as possible. Representative Fairclough stated that she heard the answer as no. Mr. Tanaka countered that the answer was yes. Many design elements employed energy efficient systems but due to the complex nature of the design, it does not meet a specific energy efficiency standard. Energy costs were modeled in during the development of the project. Representative Fairclough asked if heated sidewalks were part of the design. Mr. Tanaka negated.

[2:51:19 PM](#)

Representative Doogan asked for clarification of the term of the certificate.

Mr. Mitchell explained that the term is for 20 years with a level debt service and interest payment due in FY 2011. He furthered that interest would be paid within six months of issuance with subsequent interest paid on a semi-annual basis. A principle payment would be paid in August, 2012.

Representative Doogan cited the legislation on page 2, lines 21-24,

"The estimated annual amount of rental obligations under the lease-purchase agreement is \$5,600,000. The estimated total of lease payments for the full term of the lease-purchase agreement is \$112,000,000."

Representative Doogan asked if \$112,000,000 was the repayment amount over twenty years. Mr. Mitchell affirmed. He clarified that amount is an estimate. He restated that with participation in The Build America Bond Program reduction in the annual debt service in the amount of \$300,000 - \$400,000 per year below the \$5.600, 000.

Representative Doogan asked if there is a substantial market for the certificates and if it is a safe course for the state to take. Mr. Mitchell remarked that this is an extremely common form of financing and is called a "subject to appropriation concept" in financial markets. The state has used the mechanism successfully in the past. An investor is compelled to purchase the certificates because non-payment by a state has legal negative credit ramifications and prohibitions to access capital for future projects. Representative Doogan wondered what the advantage is of certificates of participation over general obligation bonds. Mr. Mitchell reiterated that certificates of participation are a very common means for public financing for a single project. All of the other labs in the state were financed by this mechanism. He stated that the state gets a lower interest rate with general obligation bonds. However, general obligation bonds are usually used for funding multiple projects and the project cannot move forward until an election is held. He added that ARRA expires at the end of 2010. AARA is expected to extend but

at a lower reimbursement rate of 33% so the risk in waiting is that you would give up nearly half of your advantage with general obligation bonds. Also, the state would take on interest rate risk because of waiting longer to sell at the end of the year instead of now in favorable market conditions.

[2:58:11 PM](#)

Representative Doogan asked if there is a premium being paid to use certificates of participation instead of general obligation bonds. Mr. Mitchell replied that it would be an estimated \$45,000 per year or \$900,000 over the life of the loan.

Representative Foster wondered what the rationale was to use certificates of participation instead of general obligation bonds. Mr. Mitchell stated he would not characterize increased interest payments as a premium. He felt that the rationale to use certificates of participation was the time sensitive nature of the ARRA expiration. Also, if GEO bonds are used and time is lost waiting for voter approval the risk is that the financial markets can become supply heavy at the end of the calendar year with the result of paying higher yields. In using certificates the state might be giving up the potential to have their best credit and lower interest rate with geo bonds but somewhat offset by selling into a more favorable market now with certificates and the ability for the project to move forward as soon as the bill becomes law.

[3:02:19 PM](#)

Vice-Chair Thomas MOVED to report HB 426 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HB 426 was REPORTED out of Committee with a "do pass" recommendation and with a new fiscal note from the Department of Revenue.

#

ADJOURNMENT

The meeting was adjourned at 3:03 PM