

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 15, 2010

3:26 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Mark Neuman, Vice Chair
Representative Bob Lynn
Representative Tammie Wilson
Representative Robert L. "Bob" Buch
Representative Lindsey Holmes

MEMBERS ABSENT

Representative Mike Chenault

COMMITTEE CALENDAR

HOUSE BILL NO. 376

"An Act extending the termination date of the Board of Psychologist and Psychological Associate Examiners; and providing for an effective date."

- MOVED HB 376 OUT OF COMMITTEE

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."

- MOVED HB 410 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 376

SHORT TITLE: EXTEND BD OF PSYCHOLOGIST & PSYCH. ASSOC.

SPONSOR(S): HEALTH & SOCIAL SERVICES

02/23/10	(H)	READ THE FIRST TIME - REFERRALS
02/23/10	(H)	L&C, FIN
03/15/10	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 410

SHORT TITLE: AIDEA LOANS

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/26/10 (H) READ THE FIRST TIME - REFERRALS
02/26/10 (H) L&C, FIN
03/15/10 (H) L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

LIZ CLEMENS, Staff
Representative Bob Herron
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 376 on behalf of the prime sponsor, Representative Bob Herron.

PAT DAVIDSON, Legislative Auditor
Division of Legislative Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions during the discussion of HB 376.

LISA TURNER, Licensed Psychological Associate; Interim Chair
Board of Psychologist and Psychological Associate Examiners
(BPPAE)
Department of Commerce, Community, & Economic Development
(DCCED)
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 376.

TED LEONARD, Executive Director
Alaska Industrial Development and Export Authority (AIDEA)
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 410.

MARK DAVIS, Economic Development Officer
Alaska Industrial Development & Export Authority (AIDEA)
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 410.

CATHY JEANS, Systems Branch Manager
Division of Investments (DOI)
Department of Commerce, Community, & Economic Development
(DCCED)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the discussion of HB 410.

ACTION NARRATIVE

[3:26:37 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:26 p.m.

Representatives Buch, Holmes, T. Wilson, and Olson were present at the call to order. Representatives Neuman and Lynn arrived as the meeting was in progress.

HB 376-EXTEND BD OF PSYCHOLOGIST & PSYCH. ASSOC.

[3:26:41 PM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 376, "An Act extending the termination date of the Board of Psychologist and Psychological Associate Examiners; and providing for an effective date."

[3:27:16 PM](#)

LIZ CLEMENS, Staff, Representative Bob Herron, Alaska State Legislature, stated that HB 376 would extend board of psychologist and psychological associate examiners and provide for an effective date. She explained the board will sunset in June.

[3:29:31 PM](#)

REPRESENTATIVE T. WILSON asked for the reason that the auditors did not sample more files during the audit.

MS. CLEMENS said she did not know.

[3:30:07 PM](#)

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, explained to members that the auditors obtain sufficient information when three out of ten or eleven files have issues. Thus, once the auditors have identified a problem exists that it is not necessary for them to audit more files. The auditors found the licensing examiner was not following up on the applicants' files and this problem

needed to be dealt with but the issue did not constitute a licensing issue or other issues with the board.

REPRESENTATIVE T. WILSON asked whether the board should only be extended four years.

MS. DAVIDSON answered that the problems the auditors outlined related to a lack of board support, not a problem with the board itself. The auditors identified two board support issues and one issue was the Office of the Governor was not making timely appointments to the board.

[3:32:16 PM](#)

LISA TURNER, Licensed Psychological Associate; Interim Chair, Board of Psychologist and Psychological Associate Examiners (BPPAE), Department of Commerce, Community, & Economic Development (DCCED), stated she was available to answer questions.

[3:33:23 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 376.

[3:33:50 PM](#)

REPRESENTATIVE T. WILSON moved to report HB 376 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 376 was reported from the House Labor and Commerce Standing Committee.

[3:34:02 PM](#)

The committee took an at-ease from 3:34 p.m. to 3:36 p.m.

HB 410-AIDEA LOANS

[3:36:12 PM](#)

CHAIR OLSON announced that the final order of business would be 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."

[3:36:19 PM](#)

TED LEONARD, Executive Director, explained that this bill would make changes to the Alaska Industrial Development and Export Authority (AIDEA) loan participation and loan development programs. The AIDEA is requesting the changes. He explained that the Division of Investments administers the Rural Development Investment Fund. He offered that AIDEA has been conducting a strategic plan in the past year to improve its effectiveness. These changes are the first steps to implement the plan. In doing so, AIDEA hopes to protect the rate of return; the dividend. He anticipated that the changes should increase the dividend. He provided a section-by-section analysis of the bill. Section 1 is intended to modernize the program.

[3:38:28 PM](#)

MR. LEONARD related that Section 2 adds an interest rate rebate program AIDEA's commercial finance division lending programs to help incentivize businesses to invest in areas that are economically distressed, such as rural areas or that meet other economic criteria set in regulation.

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MR. LEONARD pointed out that Section 3 would add an important provision to clarify that AIDEA can own a percentage of a project and not have to own the full project. He related that AIDEA's purpose states that it can own an interest in the project. However, the statutes that pertain to finances, specifies that AIDEA will own "a" project. Thus, weaknesses in statute exist and AIDEA would like to have this language amended to comport with AIDEA's purpose statement.

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MR. LEONARD stated that Sections 4 and 5 relate to the Rural Development Initiative Fund funded by AIDEA, which is on AIDEA's balance sheet, but is administered by the Division of Investments, Department of Commerce, Community, & Economic Development. He explained that Mr. Davis is charged with reviewing the effectiveness of AIDEA's programs.

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MARK DAVIS, Economic Development Officer, Alaska Industrial Development & Export Authority (AIDEA), stated that HB 410 does

three things. First, it would amend the method by which AIDEA determines minimum interest rates for the Commercial Finance Program. He related that AIDEA works with financial institutions to make loans and participation with private borrowers. The bank and AIDEA negotiate how much AIDEA will invest in the project, up to 90 percent. Currently, the method AIDEA uses to set the interest rate is based on the bond market and per its statute, the cost of funds. Over time, that has been interpreted to mean the cost that AIDEA would incur if it "floated a brand new bond to fund the money it would need to lend." Over time, what AIDEA has been doing is lending its own money, which has the effect of a revolving loan fund. Thus, AIDEA would like to change the system, and particularly now due to anomalies in the bond market. In May 2009, the bond market essentially disappeared and is slowly recovering. However, at one point AIDEA's minimum loan participation rate rose to 9.64 percent, while the average lending rate was 5.48 percent. He said, "That's large spread, even today the spread is 1.33." Thus, AIDEA would like to tie the cost of funds to a money market index so the bill would allow AIDEA to use a national index to set the rate rather than having Goldman Sachs calculate the artificial cost of a bond. AIDEA could use a nationally recognized index such as the federal Home Loan Bank of Seattle, Treasury Bills, or Federal Farm Credit Banks Funding Corporation funding cost index. He said he thought the rates will go down, which would make the program more competitive. Additionally, the program would be more transparent since currently AIDEA must calculate the interest rate monthly, the cost of administering the loan, and publishes a rate. He said that if an index is used a bank or potential borrower could go to the index and see essentially what AIDEA would charge. It would also set AIDEA's rate to the money market rather than the bond market. He remarked that the bond market has a disconnection between how bonds are being sold and the cost of funds.

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REPRESENTATIVE NEUMAN asked for clarification on the differences between money markets and the bond market.

MR. DAVIS explained that the bond market is what investors are willing to pay for certain bond issuances. The two major types are municipal tax free bonds and private bonds, which are taxable. Traditionally, these bonds were the basis of most portfolios. Other private bonds could be done by private distribution or public auction. What has happened is the municipal bond market has essentially disappeared. Although it

is slowly coming back the market is not robust. The American Recovery and Reinvestment Act of 2009 (ARRA), the Congress has enacted eight new forms of bonds, which do not yet have a steady market. Thus, more private placement bonds exist, but the interest rates on these bonds are hard to track. People are trying to find safe havens and the extreme of that was raised in November 2008, when the Treasury Bills went negative. Those bonds sold in less than a week since people would rather lose one dollar than ten to twelve percent of their investment in the market. The market is still unstable, he remarked. He commented that the relationship between the bond market and the stock market is usually an inverse relationship, but the correlations are not longer holding true.

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MR. DAVIS suggested that AIDEA could track its rates and become more competitive with these changes. Since 2002, AIDEA's Loan Participation Program has created 4,720 jobs and 2,900 construction jobs. Currently, its portfolio is at \$376 million, with \$24 million in pending applications. This is used largely for commercial real estate so this program helps Alaska's economy. He characterized the process as a fairly complicated mechanism but offered that it would adjust the rates.

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REPRESENTATIVE BUCH asked whether AIDEA has done this previously.

MR. DAVIS responded that under the old system, Goldman Sachs adjusted its rate every 30 days. Since 1987, the market has gone up and down. Traditionally the bond market was low and it worked well. One reason for this change is the change in the bond market. In further response to Representative Buch, he explained that the bill has built in flexibility. Since AIDEA is considering a nationally published index, AIDEA could choose an index that helps the program. Next, he explained the Incentive Rebate Program in the Loan Participation Program. Currently, no matter what the project does, the borrower receives the same rate. The proposed change would offer up to a one percent rebate for the first five years of the loan in cases in which the project met certain criteria, such as if the project would lead to jobs, development in rural areas, or based on other economic development criteria. This would encourage people to bring in projects that met the criteria. He offered that by regulation, AIDEA could set up criteria such as

development stressed areas, which would mirror the federal Rehabilitation Loans, such as for alternative energy. This measure would allow AIDEA to offer rebates in cases in which the loans met certain economic development criteria and would move the Loan Participation Program more toward economic development, which is part of AIDEA's strategic plan.

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REPRESENTATIVE NEUMAN asked what types of economic development projects AIDEA might participate in for this program.

MR. DAVIS pointed out that AIDEA is currently monitoring a series of projects such as possible plant or energy issues. He remarked that he will meet with consultants for the U.S. Department of Energy to discuss the federal guarantee loan program. He noted that AIDEA is seeking to be qualified as a development finance organization for up to \$6 billion in federal guaranteed loans to develop alternative energy in the state.

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MR. DAVIS moved to the Development Finance Program. This is the program in which AIDEA owns an entire project, such as the Skagway Ore Terminal. Currently, AIDEA cannot parse out a piece of the project, but must own the entire project. Thus, AIDEA must calculate what it can own and allow another investor to buy a segment. "This is awkward," he said. He referred to AS 44.88.010(a), which allows AIDEA to incur debt to own and operate facilities. However, AS 44.88.080 (5) conflicts with this relating that the authority can acquire an interest in a project as necessary and appropriate, which appears to refer to a portion of a project. This bill would clarify and specify that AIDEA can own a portion of a project. He explained that this change would allow AIDEA to be a partner with another firm, which would make it easier to invest and obtain partners. If the authority has a partner, it also enhances the chance the project will succeed and would reduce risk. Currently if a connected project fails, it is difficult for AIDEA to succeed. He restated that this would allow AIDEA to partner with investors and leverage funds, allowing the private market or federal government to fund a portion of the project.

[3:52:00 PM](#)

REPRESENTATIVE NEUMAN referred to on page 3, to lines 23-24, he pointed out the language allows AIDEA to make loans, but is

limited to areas not connected by road or rail to Anchorage or Fairbanks. He asked for clarification.

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CATHY JEANS, Systems Branch Manager, Division of Investments (DOI), Department of Commerce, Community, & Economic Development (DCCED), explained that the Division of Investments (DOI) administers a number of state loan programs including the Rural Development Initiative Program. This program was established in 2000, to encourage rural businesses, which is similar to a program that was administered for many years by the former Department of Community and Regional Affairs. The DOI administers the program for AIDEA, which consists of about 40 loans totaling \$4.1 million. The program is a revolving loan fund, which means all repayments and earnings are retained in the fund, and all operating expenses are paid from the fund. The RDIP currently has \$1.5 million to lend. The proposed changes came about from public input and internal discussions. This bill would remove the restriction that a borrower can have no more than one loan and increases the dollar amount of proposed loans from \$100,000 to \$150,000 per person, and from \$200,000 to \$300,000 for two or more persons. Section 5 reduces the minimum rate of interest from six percent to four percent. The DOI supports the changes because the division believes it will increase the utilization of the program, which creates more jobs, and benefits the economic conditions in rural communities. The DOI submitted a zero fiscal note.

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REPRESENTATIVE NEUMAN offered his belief that the purpose of the changes is to expand the ability to provide smaller loans and more diversified loans to Alaskans. He asked whether more opportunities would be provided to Alaskans if the restriction on page 3, lines 22-25, that limit it to rural communities was removed.

MS. JEANS agreed that it may provide more loans, but this fund is a smaller "pot of money" and is targeted to assist communities of 5,000 or fewer, not connected to the road or rail system in Anchorage or Fairbanks. Thus, this is intended to create more jobs for eligible rural communities.

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CHAIR OLSON offered that the program is aimed at the communities that do not have access to loan facilities or commercial banks.

MS. JEANS suggested that applicants may have access to banks, but the goal is assist in creating long-term employment in rural areas.

REPRESENTATIVE NEUMAN offered that people in communities like Cantwell, which is a remote area, also have difficulty in starting businesses. He said he thinks the state should do all it can for as many Alaskans. He expressed concern about equality in the bill in its current form.

MS. JEANS responded that the program limit to rural areas is current statutory language.

CHAIR OLSON pointed out that the only change to the program in HB 410 is to increase the amount of the loans.

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MS. JEANS noted that this language originally came from a program contained in the DCRA. She related that it has been "on the books" for quite awhile.

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MR. LEONARD mentioned the program language is current statutory language for the program. He recalled that another bill will be before the committee that relates to microloans, which will target loans for small businesses across the state. If this bill were to be changed and expanded to the Railbelt, that AIDEA would need to contemplate how to capitalize the fund, he stated. He offered his belief that AIDEA is restricted to fund the program, although he did not have the details on the program funding. He surmised that if the program were expanded that it would be used up in a couple of months. He expressed interest in considering ways to provide working capital for businesses across the state.

[4:02:11 PM](#)

REPRESENTATIVE NEUMAN remarked that he wants to reach more Alaskans. He recalled criticism he has heard about AIDEA's inability to reach out to small businesses. He said he wanted to ensure that certain people do not get left out and to take care of all Alaskans equally.

4:03:30 PM

REPRESENTATIVE NEUMAN expressed concern about the rural preference in HB 410.

CHAIR OLSON remarked that the bill has a good chance of passage with a zero fiscal note.

MR. LEONARD commented that AIDEA has faced many challenges in its efforts to assist businesses. He related that AIDEA's programs typically partner with banks and result in loan participation. He explained that AIDEA is working to find ways to offer direct loans and has been with the Division of Investments to find ways to provide loans for working capital to small businesses.

CHAIR OLSON related that it is possible to have AIDEA come in and discuss the issue of encouraging small businesses and how to provide loans to assist them.

4:05:47 PM

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 410.

REPRESENTATIVE NEUMAN remarked that this is an opportunity for AIDEA to expand its program. He characterized HB 410 as a good bill

4:06:40 PM

REPRESENTATIVE NEUMAN moved to report HB 410 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 410 was reported from the House Labor and Commerce Standing Committee.

4:06:59 PM

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:06 p.m.