

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

March 17, 2010

3:28 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 363

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

- HEARD & HELD

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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 363

SHORT TITLE: AIDEA MEMBERSHIP

SPONSOR(s): COMMUNITY & REGIONAL AFFAIRS

02/23/10	(H)	READ THE FIRST TIME - REFERRALS
02/23/10	(H)	L&C
03/17/10	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 412

SHORT TITLE: MICROLOAN REVOLVING FUND

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/26/10 (H) READ THE FIRST TIME - REFERRALS
02/26/10 (H) L&C, FIN
03/17/10 (H) L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

ROB EARL, Staff
Representative Bob Herron
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 363 on behalf of the prime sponsor, the House Community and Regional Affairs Standing Committee, Co-Chaired by Representatives Bob Herron and Cathy Munoz.

ERIN HARRINGTON, Staff
Representative Alan Austerman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 363 on behalf of Representative Alan Austerman

TED LEONARD, Executive Director
Alaska Industrial Development & Export Authority (AIDEA) and
Alaska Energy Authority (AEA)
Department of Commerce, Community, & Economic Development
(DCCED)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the discussion of HB 363.

ERIN HARRINGTON, Staff
Representative Alan Austerman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions during the discussion of HB 329.

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

POSITION STATEMENT: Presented HB 412, on behalf of the administration.

GEOFF WHISTLER, Lending Section Manager
Division of Investments (DOI)
Department of Commerce, Community, & Economic Development
(DCCED)
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 412.

MIKE BORGFORD, Executive Director
Made in Mat-Su
Wasilla, Alaska

POSITION STATEMENT: Testified during the discussion of HB 412.

ACTION NARRATIVE

[3:28:30 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:28 p.m. Representatives Lynn, Holmes, T. Wilson, and Olson were present at the call to order. Representatives Buch, Chenault, and Neuman arrived as the meeting was in progress.

HB 363-AIDEA MEMBERSHIP

[3:28:45 PM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 363, "An Act relating to the membership of the Alaska Industrial Development and Export Authority."

[3:28:51 PM](#)

ROB EARL, Staff, Representative Bob Herron, Alaska State Legislature, explained that AIDEA's mission is to promote, develop, and advance economic growth and diversification in Alaska by providing various means of financing and investment. He related that AIDEA fulfills this mission by providing Alaskan businesses with long-term commercial and development financing at a reasonable cost. He detailed that AIDEA is a public development finance corporation independent of direct agency control, although it is associated with Department of Commerce, Community, & Economic Development (DCCED). A significant percentage of the return on AIDEA's assets is redistributed as a dividend and is deposited to the state General Fund (GF). He noted that this year's dividend was \$23 million.

MR. EARL related that currently, AIDEA consists of a five-member board which includes the Commissioners of the Departments of Revenue (DOR) and Department of Commerce, Community, & Economic Development (DCCED), plus an additional department head appointed by the governor, and two public members. This creates a commissioner to private sector ratio of 3-2, which is the same as the Alaska Energy Authority (AEA) board by statute. This bill, HB 363, as written would restructure the board by replacing two commissioners with two additional private sector members. This would result in four private sector members and the commissioner of DOR. The bill would require private sector members to possess business expertise and leadership skills.

[3:31:27 PM](#)

REPRESENTATIVE HOLMES made a motion to adopt Amendment 1, labeled 26-LS1503\A.1, Cook, 3/16/10, which read:

Page 1, lines 6 - 7:

Delete all material and insert:

"(1) the commissioner of revenue and the commissioner of commerce, community, and economic development; and"

Page 1, line 8:

Delete "four"

Insert "five"

Page 2, lines 1 - 2:

Delete all material and insert:

"(b) If a commissioner [MEMBER] described in (a)(1) [OR (a)(2)] of this section is unable to attend a meeting of the authority, the"

Page 2, line 13:

Delete "two"

Insert "three"

Page 2, line 17:

Delete "one member shall serve a two-year term"

Insert "two members shall serve two-year terms"

CHAIR OLSON objected for the purpose of discussion.

[3:31:51 PM](#)

ERIN HARRINGTON, Staff, Representative Alan Austerman, Alaska State Legislature, provided some background on the interim work on economic development that led to the introduction of this bill. The research included information on other states' successes on economic development efforts. One important discovery was that these states attributed their success to collaborative efforts by the private sector with government to provide input on activities of state government as it related to economic development. The informal group held ongoing discussions and worked with Representatives Munoz and Herron to integrate the private sector input into the bill.

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MR. EARL discussed Amendment 1. He explained the original bill had removed the DCCED commissioner position from the board, but discussions concluded it was important to keep the DCCED commissioner on the proposed board due to the expertise he/she can offer. Additionally, Amendment 1 would expand the board to a seven-member board to allow subcommittees to be appointed and for a broader pool of applicants for the governor to select appointments.

CHAIR OLSON removed his objection. There being no further objections, Amendment 1 was adopted.

[3:35:07 PM](#)

MR. EARL, in response to Representative T. Wilson, related that he is open to regional representation.

REPRESENTATIVE T. WILSON asked whether private sector members might have a conflict of interest issue.

MR. EARL answered that currently two public members serve on the board. The board follows Roberts Rules of Order, which includes provisions for addressing conflicts of interest.

[3:36:18 PM](#)

REPRESENTATIVE HOLMES recalled that the AIDEA board also serves as the AEA board. She asked if the language that applies to the public members is broad enough to encompass diversity, such as AIDEA's interest in having someone serve that has an energy background serve.

MR. EARL agreed the AIDEA board also serves as the AEA board. He believed the language in HB 363 was broad enough to allow the governor the discretion to address board member diversity. He stated the sponsor is open to the idea of clarifying the energy experience required of applicants.

[3:37:21 PM](#)

REPRESENTATIVE HOLMES assumed that would include people with experience gained in energy cooperatives, or at the local government level working with energy issues.

MR. EARL responded that it is not the sponsor's intent to exclude persons with the experience mentioned.

[3:38:07 PM](#)

REPRESENTATIVE NEUMAN asked whether AEA and AIDEA boards are joined.

MR. EARL answered that by statute the AIDEA and AEA boards are the same board.

REPRESENTATIVE NEUMAN asked when reviewing projects, whether the boards are involved in the discussion of projects such as the renewable energy projects.

[3:39:22 PM](#)

TED LEONARD, Executive Director, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), introduced himself.

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REPRESENTATIVE NEUMAN asked when considering the renewable energy projects of up to \$550 million, for the depth of discussions that the AIDEA or AEA board membership holds and whether specific projects are reviewed.

MR. LEONARD responded AIDEA has not been involved in the analysis on AEA projects, but does consider its own contracts, such as contracts pertaining to alternative energy programs. He said he cannot really elaborate on the entire process that AEA uses or when the AIDEA's board is also the AEA board. He deferred to the Executive Director of the Alaska Energy

Authority to testify on that matter. He related that AIDEA can be involved, as Mr. Earl mentioned, in the process of financing energy projects. Currently, AIDEA is working to identify ways to partner with AEA on projects. In fact, AIDEA and AEA's staff are currently meeting with officials from the U.S. Department of Energy to find ways to utilize the federal stimulus guarantee programs to fund energy projects in the state.

[3:41:56 PM](#)

REPRESENTATIVE NEUMAN related Amendment 1 increased the private sector members that serve on the AIDEA board, and asked whether the expertise would include power generation experience or different types of similar work. He further asked how conflicts of interest would be resolved.

MR. EARL answered that under Amendment 1 there would be five public members and two commissioners. He offered that the board would follow Roberts Rules of Order and members would need to declare a conflict of interest, and the board would vote on whether a conflict exists. The expertise required for board members would be left to the governor's discretion. No specific requirement is specified in the bill to require an energy expert, but he stated that he is open to the idea.

CHAIR OLSON pointed out that the appointment process would be the same process as for other boards and commissions.

MR. EARL noted that AIDEA board members are not subject to legislative approval.

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MR. LEONARD elaborated that the AIDEA board does have to follow the Ethics Act. He affirmed that board members would be required to identify a conflict of interest and with a larger board he envisioned it would be easier to vote on those types of issues. He suggested that the requirement for business experience could be expanded to add "and industry experience." He suggested that AIDEA, in working with the bill sponsor, discussed the importance of having expertise from different sectors including industry expertise, natural resource extraction, logistics, energy, and communications. He pointed out that industry could be added to provide legislative intent that the qualifications of board members include a broader range than what would normally be considered business expertise.

[3:45:18 PM](#)

CHAIR OLSON referred to page 1, lines 12 - 13, and suggested it should read, "...has expertise in private sector business and industry, and possess demonstrated leadership skills."

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REPRESENTATIVE HOLMES made a motion to adopt Conceptual Amendment 2, on page 1, lines 12 - 13 after business, to insert "and/or industry".

REPRESENTATIVE T. WILSON objected for purpose of discussion.

REPRESENTATIVE HOLMES offered her belief that this would incorporate the language suggested by Mr. Leonard and would ensure industry participation.

REPRESENTATIVE NEUMAN thought this language was an improvement.

REPRESENTATIVE T. WILSON removed her objection.

There being no further objection, Conceptual Amendment 2 was adopted.

REPRESENTATIVE NEUMAN asked whether financial disclosures of board members are required.

MR. EARL answered yes. Public financial disclosures are required of board members.

[3:47:10 PM](#)

REPRESENTATIVE T. WILSON asked whether regional representation should be considered. She did not want the pool to be too small and asked whether regional representation should be required or would happen naturally.

MR. EARL related it would be up to the governor, but did not mind the additional direction.

[3:48:05 PM](#)

REPRESENTATIVE T. WILSON made a motion to adopt Conceptual Amendment 3. She suggested regional membership should include one rural member, one member from the Interior, and one member from Southeast Alaska to provide better diversity on the board.

CHAIR OLSON suggested the committee could provide a letter of intent, but offered his belief that it is already the intent of AIDEA, the governor, and the co-sponsors to have regional membership on the board. He noted the bill is co-sponsored by members from Southcentral, Western Alaska, and Southeast Alaska.

REPRESENTATIVE T. WILSON said she thought regional representation on the AIDEA board was important since energy diversity exists in each of the communities.

REPRESENTATIVE T. WILSON offered to work with the bill sponsor to develop language.

ERIN HARRINGTON, Staff, Representative Alan Austerman, Alaska State Legislature, stated she has seen rural member defined as someone representing a community of less than 2,500 people or located off the road system. She was not certain how to identify an Interior member.

REPRESENTATIVE T. WILSON withdrew Conceptual Amendment 3.

CHAIR OLSON related that language could still be developed to address regional representation.

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REPRESENTATIVE BUCH expressed an interest in having the AIDEA board include members representing a cross section of interests, including small businesses and industry. Additionally, he thought board member appointments should overlap to provide continuity and consistency to the AIDEA board.

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REPRESENTATIVE NEUMAN referred to Section 1 and to the AIDEA board composition. He thought legislative intent could be added to provide regional representation on the board. In response to Chair Olson, he offered his belief that the sponsors will be willing to work with Representative T. Wilson on language and said he did not wish to hold up the bill.

REPRESENTATIVE T. WILSON mentioned that there are five Judicial Districts in Alaska, which may be a way to arrive at regional representation.

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CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 363 and announced that it would be held over.

HB 412-MICROLOAN REVOLVING FUND

[3:54:30 PM](#)

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

[3:58:07 PM](#)

CATHY JEANS, System Branch Manager, Division of Investments (DOI), Department of Commerce, Community, & Economic Development (DCCED), explained that the Governor requested the bill be introduced to strengthen the economy. This bill would create a new loan program, the Microloan Revolving Fund, within the DCCED to help small businesses access critically needed capital. The bill would allow up to \$35,000 for an individual loan and up to \$70,000 for two or more persons. The maximum term for the loan would be six years. A loan under this program bears interest at the rate of prime plus one percentage point, with a minimum amount of not less than six percent per year, and a ceiling of not more than eight percent per year. The fiscal note is \$3.577 million from the AIDEA dividend, with \$77,000 required to provide for a loan officer and travel. She estimated approximately 75 loans would be issued in the first year, 100 loans in the second year, and approximately 25 loans each year thereafter. She offered the administration's strong support for HB 412. She also said she believes this bill will help many businesses succeed in Alaska.

MS. JEANS provided a section-by-section analysis of HB 412. Section 1 would modify the uncodified code of Alaska to describe findings related to the fund.

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REPRESENTATIVE NEUMAN asked for a description of a revolving fund.

MS. JEANS answered a revolving fund is not a dedicated fund, that principal and interest repayments to the fund are retained to the fund, and operating funds are paid from the earnings.

REPRESENTATIVE NEUMAN asked whether the state would foreclose in the event that someone defaulted on his/her loan.

MS. JEANS answered yes. The division has a special fund called the Foreclosure Expense Fund, and any monies credited to the account can be used to buy out liens to protect the state assets. This may be necessary during a foreclosure proceeding as it is sometimes necessary to contact the Attorney General's office, which would accrue legal expenses, or it may be necessary to hire a management company to view the property.

REPRESENTATIVE NEUMAN related his understanding that the money would remain within the fund and is self contained.

MS. JEANS answered yes. She pointed out that operating expenses and office equipment would require an appropriation from the general fund (GF). In further response to Representative Neuman, she agreed that any budget documents would indicate the Microloan Revolving Loan Fund as the funding loan source.

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MS. JEANS related that Section 2 would create a new article in AS 44.33 titled "Alaska Microloan Revolving Fund," which would set out limitations and terms for the loans. The bill would allow up to \$35,000 for an individual loan and up to \$70,000 for two or more persons. The maximum term for the loan would be six years. A loan under this program would bear interest at the rate of prime plus one percentage point, with a minimum amount of not less than six percent per year, and a ceiling of not more than eight percent per year. Loans must be secured by collateral and cannot be made to a person who has past due child support obligations. This section would also create a special account, the Foreclosure Expense Account.

[4:02:37 PM](#)

MS. JEANS stated that Section 3 would amend the uncodified code adding a new section titled, "TRANSITION: REGULATIONS." This section would authorize the DCCED to immediately proceed with the adoption of regulations necessary to implement the changes made in Section 2 of the bill. This section further stipulates that the regulations may not take effect before July 1, 2010.

Section 4 stipulates that Section 3 of the bill takes effect immediately. Finally, Section 5 indicates that except for Section 2, the bill would take effect on July 1, 2010.

[4:03:15 PM](#)

REPRESENTATIVE BUCH referred to Section 2 to AS 44.33.965 in the bill. He said that this provision encapsulates the requirements but sets the prime rate as the indicator. He asked what would happen in the event the prime is at a lower rate, such as 4 percent, since the limits are set at 6 and 8 percent.

MS. JEANS related that it could be set at the prime interest rate plus one. Thus, if the prime interest rate is currently set at 3.25 percent, plus one would put it at 4.25 percent, but the floor is set so it cannot go below 6 percent. The division would like to keep the rate between 6 and 8 percent since these loans may be riskier loans. The division's goal was to not have the rate too low as the loans may then directly compete with banks.

[4:04:31 PM](#)

REPRESENTATIVE BUCH asked Chair Olson whether he had comments based on his personal experience.

CHAIR OLSON recalled the Commercial Fisheries Agricultural Bank, which had a preferential interest which was built into CFAB, but parameters were used. He further recalled that the loans could be used for vessels, gear, and permits.

REPRESENTATIVE BUCH asked whether this section would remove the possibility to consider current conditions.

CHAIR OLSON offered his belief that AIDEA would keep 100 percent of the loans since they are relatively small loans.

[4:05:34 PM](#)

REPRESENTATIVE T. WILSON referred to the condition that loans would not be made to someone with past due child support. She asked why the restriction for judgment is restricted to child support.

MS. JEANS related that the program will look at an applicant's credit report and reports are submitted monthly to credit

bureaus. In further response to Representative T. Wilson, she said she was unsure why this provision specifies child support.

REPRESENTATIVE BUCH elaborated that sometimes the legislature includes language to provide direction and a point of view, which is likely why child support obligations are specifically considered.

[4:07:26 PM](#)

GEOFF WHISTLER, Lending Section Manager, Division of Investments (DOI), Department of Commerce, Community, & Economic Development (DCCED), explained that child support obligations are not reported on credit reports. Thus, if an obligor is behind on his/her payment he/she must bring the account current and the program must consider any judgments before granting a loan.

[4:08:30 PM](#)

REPRESENTATIVE T. WILSON asked whether any other obligations should be considered that may not be on a credit report.

MR. WHISTLER responded that the Internal Revenue Service (IRS) has certain rights when it files liens. He assured her that the division checks with the IRS on all loans as a part of their Memorandum of Understanding. The IRS typically will respond within five days to let AIDEA know whether an applicant has an outstanding obligation.

[4:09:25 PM](#)

MS. JEANS, in response to Representative Neuman, answered yes. She offered a scenario in which an applicant could purchase a garage and equipment for startup or expansion of a business.

REPRESENTATIVE NEUMAN asked whether a specific percentage of collateral is necessary and if matching funds are available from AIDEA.

MS. JEANS responded that there would not be matching funds from AIDEA. However, the borrower is encouraged to have some working capital to put into the business. Additionally, AIDEA can also lend working capital for starting up a business, she stated.

[4:11:56 PM](#)

REPRESENTATIVE NEUMAN related that the loans must be secured by collateral accepted by the commissioner. He asked whether a certain amount is considered standard practice.

MR. WHISTLER answered that each item has a different collateral value. For example, collateral could consist of equipment or tools for snowmachine business, which may have a 50 percent value, whereas real estate is about 80 percent, and recreational boats could be considered at about 65 to 75 percent for security purposes. The standard equity is about 10 percent in order for business owners to also have some "buy in" to the business.

REPRESENTATIVE NEUMAN asked whether 20 percent equity would satisfy AIDEA's requirements.

MR. WHISTLER said that it is hard to predict. If a person was buying his/her property for repairing snowmachines, the person may have 20 percent equity in the business, or may have equity in his/her home that could be used as collateral.

REPRESENTATIVE NEUMAN related his understanding that each loan would be individually determined as to the amount of collateral.

MR. WHISTLER answered yes.

[4:14:02 PM](#)

REPRESENTATIVE NEUMAN asked whether AIDEA would review community need and niche for a business before granting a loan.

MR. WHISTLER agreed that AIDEA would obtain knowledge by holding discussions with people in the community. He related that AIDEA has several resource groups such as the Legislative Information Office and the Mat-Su City and Borough offices. Certainly, AIDEA would be interested in the market and if the business plan is reasonable since they do not want businesses to fail.

REPRESENTATIVE NEUMAN asked whether a risk assessment is set up. He said he thought the program is a great idea. He just wanted to ensure that AIDEA has the necessary flexibility.

REPRESENTATIVE NEUMAN posed a scenario in which a person who opened a refrigeration repair business had a student loan. He asked whether the microloan program could be used to pay off the student loan since the education and training was necessary to the business.

MR. WHISTLER related that what Representative Neuman described would be considered a refinanced loan by definition. He related this is not currently an eligible purpose in this bill.

REPRESENTATIVE NEUMAN inquired as to whether a business owner could pay for equipment purchased at a store. He asked how AIDEA would monitor the process to ensure the loan is spent appropriately.

MR. WHISTLER related that AIDEA currently provides for these types of loans, such as through the Small Business Economic Development and Rural Development Programs. The AIDEA would control the disbursements based on the business plan and through communications with the borrower. Thus, to pay for purchasing equipment, the borrower would provide AIDEA with a detailed invoice. In further response to Representative Neuman, he agreed that conceptually the borrower could pay for equipment for his/her business.

[4:19:02 PM](#)

MIKE BORGFORD, Executive Director, Made in Mat-Su, offered his belief that this bill represents the most important piece of legislation to be considered in the last 30 years. Currently, his organization is comprised of existing businesses. He offered his belief that this bill will offer existing businesses opportunities to expand and be more viable in the marketplace. He explained that he recently surveyed about 250 small businesses, largely manufacturers, in the Mat-Su region and Southcentral Alaska. The businesses he surveyed believe HB 412 would create a means for them to obtain raw materials and obtain better deals in doing so. This bill could also make them more competitive in the market in the Mat-Su Valley and in Anchorage. He said members characterized HB 412 as a good bill. He highlighted one concern his organization pointed out is the need for the business to be located in Alaska. He recalled one of the Made in Mat-Su members owns a business in Alaska but also owns one in the Lower 48. He suggested the committee may wish to tighten up the eligibility requirements.

[4:22:09 PM](#)

REPRESENTATIVE NEUMAN thanked Mr. Borgford for the tremendous effort his organization makes for small businesses.

CHAIR OLSON announced that public testimony would be held open for HB 412, which was held over.

4:23:08 PM

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:23 p.m.