

HOUSE FINANCE COMMITTEE  
March 28, 2012  
9:40 a.m.

9:40:46 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:40 a.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas Jr., Co-Chair  
Representative Anna Fairclough, Vice-Chair  
Representative Mia Costello  
Representative Mike Doogan  
Representative Bryce Edgmon  
Representative Les Gara  
Representative David Guttenberg  
Representative Reggie Joule  
Representative Mark Neuman  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Paul Seaton; Brodie Anderson, Staff,  
Representative Reggie Joule.

PRESENT VIA TELECONFERENCE

Jerry Scholes, Refrigeration Business Owner, Homer; Wanetta Ayers, Division Director, Department of Commerce and Economic Development.

SUMMARY

HB 59                      COMMERCIAL FISHING LOAN ACT

CSHB 59(FIN) was REPORTED out of committee with a "do pass" recommendation and with new

fiscal impact note from the Department of Commerce and Economic Development.

HB 258 NATURALLY OCCURRING ASBESTOS

HB 258 was HEARD and HELD in committee for further consideration.

HB 276 OIL/GAS PRODUCTION TAX CREDITS: NENANA

HB 276 was SCHEDULED but not HEARD.

[9:41:19 AM](#)

#hb59

HOUSE BILL NO. 59

"An Act relating to loans made to commercial fishermen under the Commercial Fishing Loan Act for product quality improvements and energy efficiency upgrades; and providing for an effective date."

REPRESENTATIVE PAUL SEATON explained that the legislation promoted the use of Alaska manufactured products for commercial fishing. A commercial fisher may receive a two percent reduction on a loan from the Commercial Fishing Revolving Loan fund [Commercial Fishing Loan Act] if the fisher spent at least 50 percent of the loan amount on products manufactured in the state for product quality improvements or energy efficiency upgrades. Currently, no incentives existed to entice commercial fisher's to purchase Alaskan products. The legislation stipulated that the Department of Commerce, Community and Economic Development (DCCED) maintained the right to grant the interest rate reduction at its discretion. In order for the loan fund to remain solvent the interest rate for individual loans cannot drop below three percent. He identified two existing certification programs; Made in Alaska and Alaska Product Preference. The department would refer to the programs guidelines to determine whether the product qualified for the rate reduction.

Co-Chair Stoltze OPENED public testimony.

JERRY SCHOLLES, REFRIGERATION BUSINESS OWNER, HOMER (via teleconference), testified in support of the bill. He manufactured a seawater chiller produced exclusively for

use in Alaska. He noted higher insurance, freight, and labor rates in Alaska compared to the manufacturing costs in the contiguous states. He mentioned difficulties in manufacturing in Alaska and trying to compete with businesses in the contiguous states, especially Seattle, Washington. He felt the situation was similar to a United States manufacturer attempting to compete with a Chinese manufacturer. He opined that the bill was a "step in the right direction" to incentivize Alaskan products. He appreciated any measures taken to help Alaska businesses.

Co-Chair Stoltze CLOSED public testimony.

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Representative Seaton also referred to letters in the bill packet from other manufacturers (Alaska Diesel Electric and Nomar) (copies on file) in support of HB 59.

Co-Chair Thomas asked whether the bill included the purchase of commercial fishing vessels from Alaskan boat builders. The provision could spur a year around industry. Representative Seaton replied that the eligible purchases in HB 59 were limited to product quality improvements and engine efficiency upgrades. Large vessel purchases did not qualify. Co-Chair Thomas also felt that the legislation should include sport charter boats. Representative Seaton replied that a similar provision in HB 121 (Loan Funds:Charters/Mariculture/Microloan)for sport charter boats passed earlier in the session.

Representative Gara appreciated the legislation. He asked if the loan discount applied in combination with the legislation [HB 20 Fisheries Loans: Energy Efficiency/Amount] passed last session [2010]. The legislation granted a loan discount for fuel and energy efficiency upgrades. Representative Seaton requested the department answer the question.

WANETTA AYERS, DIVISION DIRECTOR, DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT (via teleconference) replied that the interest rate was not cumulative at below the market rate. Statute prohibited the department from offering a loan below the prime lending rate.

Vice-chair Fairclough referred to the statutes and did not see a stipulation prohibiting interest rates below three

percent. She wondered if the provision was a regulation or set in statute. Ms. Ayers answered a floor was not established in statute but was defined by regulation.

Vice-chair Fairclough restated that the loans were guaranteed not to drop below the three percent interest rate by regulation but were not sanctioned in state statute. She cited the legislation on Page 1, Line 10-12, "When the department offers a reduction under this subsection, the department shall provide the reduction to all loan applicants who meet the criterion described in this subsection." She reported the existence of 1566 loans in the portfolio. She wondered whether the loan rate reduction was retroactive. Representative Seaton responded that the language was not intended to renegotiate previous loans. He cited the use of the word "may" on Page 1, line 7. The language meant to ensure equitable distribution throughout the state. The loan reduction could not be preferentially applied to a fisher in one part of the state over someone from another part of the state that equally met the criteria.

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Vice-chair Fairclough pointed to the language, "the department shall provide the reduction to all loan applicants" and questioned whether the phrase applied to old and new borrowers. She supported the legislation but did not want the language misinterpreted and applied to qualified existing loans. Ms. Ayers answered that the bill would not apply to all active loans in the portfolio only the loans that qualified under product quality improvements and engine efficiency. She reported that about 11 percent of the loans last year qualified under engine efficiency. She presumed that the language did require some legal clarification.

Vice-chair Fairclough wondered if the sponsor supported the addition of the word "new" on Page 1, Line 12 after the word "all" and before "loan applicants" to read, "the reduction to all new loan applicants." Representative Seaton agreed to the "friendly amendment."

Representative Costello referred to the reduction that applied to borrowers who pay on time. She asked whether the reduction was applicable to all of the loans from DCCED. Ms. Ayers explained that the on time provision was offered

to borrowers after one-year of on time payments. The borrowers received an interest rate reduction. The reduction applied to all of the loans in the Commercial Fishing Revolving Loan Fund. Representative Costello asked if the reduction was applicable if future payments were late. Ms. Ayers replied that the reduction was rescinded with delinquency or default. Representative Costello asked if the three percent interest floor could drop further in combination with the on time interest reduction. Representative Seaton interjected that the word "may" on Line 7, was included to avoid a deficit situation for the state.

Co-Chair Stoltze noted the new zero fiscal note from DCCED.

Representative Doogan wondered why the fiscal note was zero if "credits against taxes" were anticipated. Representative Seaton responded that the legislation did not offer credit against taxes. The bill offered a reduction on the loan interest rate. He reiterated that the interest rate cannot drop below the rate the department needed to maintain the loan portfolio. Representative Doogan surmised that the state will get less money in certain circumstances. Representative Seaton answered that the funds were dispersed from a revolving loan fund. Depending on the interest rate offered the state will make less money but not lose money.

Co-Chair Stoltze stated that the legislation was not asking to capitalize the fund.

Representative Doogan contended that HB 59 was still reducing the income to the state. The borrower was getting an economic benefit that resulted in a reduction of money into the loan fund. Representative Seaton replied that the interest rates charged on the revolving fund maintained the fund. The question was whether the legislature wanted to incentivize jobs in Alaska manufacturing. The interest rate reduction would not reduce the principle of the fund.

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Representative Wilson asked if DCCED knew how many previous loans would have qualified for the reduction and if that could be projected into the future to determine the impact on the loan fund. She wondered if the reduction could reduce the money available in the fund for more loans. She

liked the incentive but asked whether the end result was less money available for future loans.

Representative Seaton referred to the handout from the Division of Economic Development, DCCED, (copy on file) that charted the product quality improvement loans from the years 1999-2011, which averaged \$891,185.66 per year. The engine efficiency upgrades loans averaged \$564,246.00 per year from FY 2009 to FY 2011. The amounts reflected the loan totals and the legislation only offered an annual reduction of 2 percent on the interest rate.

Ms. Ayers added that under HB 59 in FY 2012 50 to 55 loans would have received the interest rate reduction. Currently, product quality improvement loans and engine efficiency upgrades loans were eligible for the prime interest rate minus two percent but not less than three percent. The legislation authorized that the department "may" consider an interest rate reduction. The loans were presently at approximately 3 percent and adjusted quarterly. Depending on the prime rate, a loan that additionally qualified for further reduction from HB 59 might receive up to a half point adjustment. The prime rate was predicted to remain very low. The opportunity to apply the reduction in the near future was very limited. When interest rates climb upward the opportunity to apply the incentives widened.

10:11:03 AM

Representative Edgmon announced that he sponsored the original energy efficiency legislation (HB 20) and was familiar with the issue. He felt that the fiscal note should address the impact. The commercial fishing revolving loan fund amounted to approximately \$80 million. The overall loan demand for HB 59 was probably small and the impact negligible but, some costs will be incurred to the interest earning ability of the loan portfolio. He pointed out that the impact was clearly addressed in the fiscal note for his bill. He thought that a comprehensive fiscal note would clarify the issue for the committee.

Co-Chair Stoltze requested a corrected fiscal note from the department.

Representative Guttenberg asked how many programs in the loan portfolio offered reduced interest rates. He wondered whether the health of the fund was in jeopardy. Ms. Ayers

indicated that the effect on the fund was negligible for the next two years. The department could provide future projections.

Vice-chair Fairclough asked what the average percentage rate of the loan portfolio was. Ms. Ayers estimated that the current interest rate for most loans in the fund was 5.5 percent. Vice-chair Fairclough cited the DCCED handout titled, "Statistics for Loan Servicing" (copy on file), and referenced "Other Accounts" and asked for clarification. Ms. Ayers explained that other accounts was composed of different types of accounts which included loan accounts that were previously authorized but no longer active and loan accounts administered for other departments.

Vice-chair Fairclough queried whether the department allowed loan refinancing under the loan portfolio and if there were costs associated with refinancing. Ms. Ayers reported that in the previous year 16 percent of all outstanding loans in the portfolio were refinanced loans. Currently, refinanced loans totaled 10 percent. She did not anticipate refinancing activity under HB 59 because the prime rate was at historic low levels. The department implemented refinancing during a period of devaluation in the commercial fishing industry due to a devaluing of salmon runs.

[10:18:17 AM](#)

Vice-chair Fairclough MOVED to ADOPT Amendment 1.

AMENDMENT 1

27-LS0317\A

Section 1, Line 12

after "the reduction to all"

Insert "new"

Co-Chair Stoltze OBJECTED for purpose of discussion.

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

Vice-chair Fairclough wanted the three percent floor on commercial fishing revolving loans set in statute to safeguard the fund. She did not believe that the loans should not cost the state money.

Co-Chair Stoltze reiterated his request for a revised fiscal note from DCCED detailing the impact of the interest rate reduction on the loan portfolio.

Representative Doogan ascertained that the state offered 15 large loan programs. He reported that 10 were for oil tax legislation, and the remainder included the film credits. He cautioned that 26 tax credit bills were pending in the House or Senate. He supported HB 59 and thought that the cost to the state was negligible but the legislation was part of a larger issue. He asserted that the committee should take a holistic view of the tax credits to determine the total costs to the state. Representative Gara concurred that HB 59 had a negligible impact. He expressed support of the bill but agreed that the cumulative costs of the tax credits to the state should be calculated. He thought that the legislature should take an alternative approach to tax credits and limit the time the tax credit was available. He suggested that the credit last long enough to "get the companies on their feet"; perhaps two years and not last forever. He felt that tax credits should not always shrink state revenues.

Vice-chair Fairclough MOVED to report CSHB 59(FIN) out of committee with individual recommendations and the accompanying fiscal note.

CSHB 59(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Commerce and Economic Development.

[10:26:06 AM](#)

#hb258

HOUSE BILL NO. 258

"An Act directing the Department of Transportation and Public Facilities to develop and implement standards and operating procedures allowing for the use in the construction and maintenance of transportation projects and public facilities and in the construction of projects by public and private entities of gravel

or aggregate materials that contain a limited amount of naturally occurring asbestos, and authorizing use on an interim basis of those materials for certain transportation projects and public facilities; relating to certain claims arising out of or in connection with the use of gravel or aggregate materials containing a limited amount of naturally occurring asbestos; and providing for an effective date."

Vice-chair Fairclough moved to ADOPT the CS Work Draft CSHB 258 (FIN) 27-LS0400\Y (3/27/12, Nauman). There being NO OBJECTION the committee substitute was ADOPTED.

BRODIE ANDERSON, STAFF, REPRESENTATIVE JOULE, highlighted the changes to the legislation. He reported that on Page 6, lines 10-31, and Page 7, lines 1 - 39, created a naturally occurring asbestos zone. A municipality or community, defined by Title 29, would petition the Department of Transportation and Public Facilities (DOT) for permission to create a naturally occurring asbestos (NOA) zone. The community must submit an application that included testing results for the presence of naturally occurring asbestos. The department would review the application and test results. After verification that asbestos free gravel or aggregate material was not available DOT would permit the delineation of the naturally occurring asbestos zone. The legislation allowed the state to declare a NOA zone if a community or municipality did not exist in an area, such as the Dalton Highway. The bill defined the subsequent process once the delineation zone was created. He cited a flow chart "NOA Delineation Zone Logic Chart", (copy on file), that mapped out the process.

Mr. Anderson turned to Page 8, lines 20-22 that expanded on the site specific plan and addressed a public health concern by identifying the possibility of airborne asbestos from vehicles. He communicated that many of the regulations in the legislation were rewritten beginning on Page 10 through Page 12, line 12. He remarked that Page 12, lines 2 - 12, and subsection 7-19, delineated the guidelines for the regulations and helped clarify economically reasonable costs. He cited Subsection 10, which contained additional guidelines that addressed public health exposure to asbestos fibers. He identified Page 12, lines 17 - 22 that expanded the definition of NOA to include the various types of asbestos. He pointed to the final change on Page 12

lines 27 - 31, that granted a provisional NOA delineation zone to the community of Ambler while DOT writes the regulations.

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Representative Wilson wondered if the delineation zone would burden the community with costs and project delays. Mr. Anderson replied that the application process would be spelled out in the regulation process and was designed to keep application costs low for the community.

Representative Gara wondered if other options were available to provide communities with asbestos free gravel and requested clarification of "economically unreasonable" as defined in the bill.

HB 258 was HEARD and HELD in committee for further consideration.

#hb276

HOUSE BILL NO. 276

"An Act providing for a credit against the oil and gas production tax for costs incurred in drilling certain oil or natural gas exploration wells in the Nenana Basin."

HB 276 was SCHEDULED but not HEARD.

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ADJOURNMENT

[10:34:46 AM](#)

The meeting was adjourned at 10:34 AM