

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 27, 2013

3:24 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Lora Reinbold, Vice Chair
Representative Mike Chenault
Representative Bob Herron
Representative Charisse Millett
Representative Dan Saddler
Representative Andy Josephson

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 175

"An Act allowing, under certain conditions, a property or casualty insurer to provide policies and endorsements to an insured by posting the policies and endorsements on the insurer's Internet website."

- MOVED CSHB 175(L&C) OUT OF COMMITTEE

HOUSE BILL NO. 125

"An Act prohibiting a health care insurer from denying coverage for an additional limited quantity of prescription topical eye medication under certain circumstances."

- HEARD & HELD

HOUSE BILL NO. 74

"An Act relating to development project financing by the Alaska Industrial Development and Export Authority; relating to the dividends from the Alaska Industrial and Export Authority; authorizing the Alaska Industrial Development and Export Authority to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

- MOVED CSHB 74(L&C) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 175

SHORT TITLE: ELECTRONIC POSTING OF INSURANCE POLICIES

SPONSOR(s): LABOR & COMMERCE

03/18/13 (H) READ THE FIRST TIME - REFERRALS
03/18/13 (H) L&C
03/27/13 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 125

SHORT TITLE: TOPICAL EYE MEDS PRESCRIPTION REFILLS

SPONSOR(s): HOLMES

02/18/13 (H) READ THE FIRST TIME - REFERRALS
02/18/13 (H) L&C
03/27/13 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 74

SHORT TITLE: AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/16/13 (H) READ THE FIRST TIME - REFERRALS
01/16/13 (H) L&C, FIN
02/08/13 (H) L&C AT 3:15 PM BARNES 124
02/08/13 (H) Heard & Held
02/08/13 (H) MINUTE(L&C)
03/04/13 (H) L&C AT 3:15 PM CAPITOL 106
03/04/13 (H) Mtg Recess & Reconvene 8:00 AM, 3/5/13
03/05/13 (H) L&C AT 8:00 AM BARNES 124
03/05/13 (H) -- Meeting Continued from 3/4/13 --
03/11/13 (H) L&C AT 3:15 PM BARNES 124
03/11/13 (H) Heard & Held
03/11/13 (H) MINUTE(L&C)
03/13/13 (H) L&C AT 3:15 PM BARNES 124
03/13/13 (H) Heard & Held
03/13/13 (H) MINUTE(L&C)
03/15/13 (H) L&C AT 3:15 PM BARNES 124
03/15/13 (H) Heard & Held
03/15/13 (H) MINUTE(L&C)
03/21/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/21/13 (H) <Bill Hearing Canceled>
03/25/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/25/13 (H) Scheduled But Not Heard
03/27/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/27/13 (H) L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

KONRAD JACKSON, Staff
Representative Kurt Olson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 175 on behalf of the sponsor, the House Labor and Commerce Committee, of which Representative Olson is the chair.

JOSH ZIELASKIESWISC, Attorney
Progressive Insurance
Mayfield Village, Ohio

POSITION STATEMENT: Testified during the discussion of HB 175.

REPRESENTATIVE LINDSEY HOLMES
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as sponsor during the discussion of HB 125.

CHRISSY MCNALLY, Staff
Representative Lindsey Holmes
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the sponsor of HB 125, Representative Lindsey Holmes.

MICHAEL LEVITT
American Academy of Ophthalmology
San Francisco, California

POSITION STATEMENT: Testified during the discussion of HB 125.

SHEELA TALLMAN, Senior Manager
Legislative Policy
Premera Blue Cross/Blue Shield of Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 175.

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

POSITION STATEMENT: Testified and answered questions during the discussion of HB 74.

MARK R.DAVIS, Deputy Director

Infrastructure Development
Alaska Industrial Development and Export Authority (AIDEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 74.

ACTION NARRATIVE

[3:24:49 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:24 p.m. Representatives Reinbold, Josephson, Herron, Saddler, and Olson were present at the call to order. Representatives Millett and Chenault arrived as the meeting was in progress.

HB 175-ELECTRONIC POSTING OF INSURANCE POLICIES

[3:25:11 PM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 175, "An Act allowing, under certain conditions, a property or casualty insurer to provide policies and endorsements to an insured by posting the policies and endorsements on the insurer's Internet website."

[3:25:27 PM](#)

KONRAD JACKSON, Staff, Representative Kurt Olson, Alaska State Legislature, stated that HB 175, sponsored by the House Labor and Commerce Standing Committee, would permit insurers to provide standard property and casualty insurance policies and endorsements to those insured by posting the policies and endorsements on the insurer's website. Current law requires companies to mail or deliver policies in all 50 states. The bill would add posting as a means of access to policies and endorsements. Posting property and casualty insurance policies on insurer's websites will allow insurers to dramatically reduce the number of bulky policy contracts and endorsements they mail to customers each year while improving the accessibility and usefulness of the documents. He referred to an example of an insurance policy in members' packets from Progressive Insurance. Again, the documents are typically lengthy ones so posting represents a direct savings to the consumer and the company. The intent of the bill is to post policies that contain no personally identifiable information and are filed and approved

before use. Further, public posting to the website will pose no privacy risk to insureds or any competitive risk to insurers and are strictly policy and endorsement documents. Market research shows consumers often do not read the entire documents, but instead thumb through the document or read a page or two. The website access to lengthy documents such as these is not uncommon, since consumers often receive software licenses or other agreements on-line when purchasing software or other items.

[3:27:59 PM](#)

MR. JACKSON said some people, including his mother, would not use website technology. Thus, a paper copy is available to those who so desire. He pointed out the documents would be searchable and paper contracts will remain available to consumers. The U.S. Postal Service has increased postage five times since 2006 and this bill is designed to help alleviate some of the postage costs, as well.

[3:28:41 PM](#)

REPRESENTATIVE HERRON asked if those opposed to this bill would likely be the U.S. Post Service and the paper supply companies.

MR. JACKSON responded that no one has contacted the sponsor in opposition to the bill.

CHAIR OLSON recalled this is an opt-in program.

MR. JACKSON agreed that this bill merely would authorize companies to post the documents on their website since the general policies do not contain any personally identifiable information and thereby anyone who wished to could access the policy via the website.

[3:30:34 PM](#)

REPRESENTATIVE REINBOLD moved to adopt the proposed committee substitute (CS) for HB 175, labeled 28-LS0327\0, Bailey, 3/22/13, as the working document.

CHAIR OLSON objected for purpose of discussion.

[3:31:11 PM](#)

MR. JACKSON, referring to page 1, line 7, pointed out that the language "provide a policy or endorsement" is inserted to indicate specifically what will be posted is the policy or endorsement. The second change on page 1, line 11, would insert the language "or endorsement," for consistency purposes. Similar changes are made on page 2, lines 1-2, where the language "and endorsements," is inserted and on page 2, line 5, after policy, the language "and endorsements" is inserted.

CHAIR OLSON removed his objection. There being no further objection, Version 0 was before the committee.

[3:32:44 PM](#)

JOSH ZIELASKIESWISC, Attorney, Progressive Insurance, stated his primary focus is e-commerce. He explained that his chief executive officer visited the Progressive Insurance mailing center and observed numerous boxes of policy contracts awaiting mailing. He related the Progressive Insurance policy is 35 pages in length, which is on the short side for policies. The CEO subsequently tasked him to figure out how to limit mailing out so many policies. The company has conducted product testing and typically the outcome is that policies are thrown out since the policyholders are typically interested in their identification cards and their declarations page since these items contain the information on deductibles, vehicles, and drivers covered under the specific policy.

MR. ZIELASKIESWISC outlined the goal of HB 175, which is first, to dramatically reduce the number of paper property and casualty insurance contracts and endorsements printed and mailed each year. Next, the company would like to provide property and casualty insurance contracts and endorsements on a publicly available website for existing and potential insureds to review, save and print whenever they like. Thus, Progressive Insurance would like to post their policies on a publicly available website so people can read the policies and perhaps compare them to other policies. He said one of the added consumer benefits would be to allow comparison. In fact, consumer groups have asked for more openness and transparency between carriers. Additionally, to assist policyholders, each form they purchase will be itemized on their declarations page or issued along with it. Finally, the goal of HB 175 would be to provide simple mechanisms for insureds to access their documents and allow them to request paper copies free of charge.

MR. ZIELASKIESWISC stated that even when people buy insurance they typically do not see the printed terms of the contract until the insurance company mails the policies to the policyholders. This bill would further benefit consumers since it allows insurers to fine-tune their efficiencies, which can lower premium costs. Further, the policies and endorsements will be available on demand. Typically, people are not too worried about their policies until they have an accident and want to check specific coverage and exclusions. Rather than necessitate calling an insurance company to ask for a policy or search for it, the policyholders could check on the company's website.

[3:38:12 PM](#)

MR. ZIELASKIESWISC reiterated the benefits. Additionally, there are green considerations and eliminating these saves natural resources and printing, as well as postage costs. The electronic version is searchable in a PDF, consumers can search and find specific sections within the policy. The policies are typically printed using a 10 or 12 point font; however, the online version can be increased in size for readability. Further, this bill is good for insurance companies, too, for many of the same reasons that the bill is good for consumers.

[3:40:17 PM](#)

MR. ZIELASKIESWISC related that insurance laws typically lag behind the rest of the financial services. The changes in HB 175 can help modernize insurance laws to bring them in line with the rest of the financial services. He predicted laws like this could also allow more insurance carriers to engage in commerce. He reported that similar changes have been passed in Virginia and Michigan. Additionally, other states are considering similar bills in Arizona, Illinois, Missouri, Kansas, Texas, Florida, Idaho, Ohio, Oregon, Alabama, Colorado, Minnesota, Oklahoma, and Pennsylvania.

[3:42:38 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the amendment labeled "O.1" has been discussed.

MR. JACKSON responded it has not yet been offered.

[3:42:45 PM](#)

REPRESENTATIVE SADDLER asked whether people could inadvertently change their policy or if this relates to elections that the policyholders have previously elected.

MR. ZIELASKIESWISC agreed it only applies to what the policyholders have elected to purchase. The items they purchased will be itemized on their declaration page, but policyholders cannot change their policies inadvertently.

[3:44:02 PM](#)

REPRESENTATIVE REINBOLD moved to adopt Amendment 1, labeled 28-LS0327\0.1, Bailey, 3/27/13, to HB 175, which read:

Page 1, line 2:
Delete "**and**" in both places
Insert "**or**" in both places

Page 1, line 9:
Delete "**personal**"

Page 2, line 1, following "policy":
Delete "and"
Insert "**or** [AND]"

Page 2, line 3:
Delete "and"
Insert "**or** [AND]"

Page 2, line 10, following "policy":
Insert "**or endorsement**"

Page 2, line 12, following "policy":
Insert "**or endorsement**"

Page 2, line 13, following "policy":
Insert "**or endorsement**"

Page 2, line 18:
Delete "endorsements"
Insert "**endorsement without the insured paying a fee** [ENDORSEMENTS]"

Page 2, line 19:
Delete "endorsements"
Insert "**endorsement** [ENDORSEMENTS]"

CHAIR OLSON objected for purpose of discussion.

MR. JACKSON explained that Amendment 1 contains a number of technical changes. He referred to the language "policy and endorsement" which he said is the preferred language for consistency. He then referred to one substantive change on page 2, line 18, of Amendment 1, which would add language "endorsement without the insured paying a fee" to ensure that no one would be required to pay for a paper copy of his/her policy or endorsement.

[3:46:40 PM](#)

REPRESENTATIVE CHENAULT asked whether page 2, line 18, attaches a fee if a person requests a copy of his/her policy.

MR. JACKSON answered no, that a person could obtain a copy without paying an additional fee to ensure policyholders are not charged a fee for a printed copy of their policy.

CHAIR OLSON [withdrew is objection] and upon determining there were no further objections, announced that Amendment 1 was adopted.

[3:47:34 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 175.

[3:47:54 PM](#)

REPRESENTATIVE CHENAULT asked if anyone has addressed concerns by the Alaska State Troopers or police associations in terms of drivers using electronic insurance policies. He understood that officers do not want the driver to accompany them to their police cars for safety reasons; however, some concern has also been expressed that if an officer were to take the phone to the police vehicle, the driver might suggest calls were made using the phone during the time it was in the officer's possession.

[3:49:09 PM](#)

MR. ZIELASKIESWISC stated that it seemed more like an identification issue than a policy contract or endorsement issue since people do not typically bring their policy contracts with them in their vehicles and instead will have identification cards in their glove box. The policy cards would be mailed or

e-mailed to them, in whichever manner they have elected to receive them, he said.

[3:50:00 PM](#)

REPRESENTATIVE CHENAULT related a scenario in which advertising shows a cartoon character handing a phone to an officer in response to a request for proof of insurance. He surmised the only reason for an electronic version would be if the person was in a position in which he/she did not have his/her insurance card in his vehicle. He also recalled some discussion about police not wanting to take the phone device.

[3:51:04 PM](#)

CHAIR OLSON answered that in Alaska, the vehicle insurance is required to physically be in the vehicle as a paper document.

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 175.

REPRESENTATIVE REINBOLD moved to report HB 175, labeled 28-LS0327\0, Bailey, 3/22/13, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 175(L&C) was reported from the House Labor and Commerce Standing Committee.

[3:52:05 PM](#)

The committee took an at-ease from 3:52 p.m. to 3:55 p.m.

HB 125-TOPICAL EYE MEDS PRESCRIPTION REFILLS

[3:55:16 PM](#)

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 125, "An Act prohibiting a health care insurer from denying coverage for an additional limited quantity of prescription topical eye medication under certain circumstances."

[3:55:36 PM](#)

REPRESENTATIVE LINDSEY HOLMES, Alaska State Legislature, as sponsor, stated that the optometrists and ophthalmologists agree with the changes in HB 125. She related she is currently

working with the insurance industry on some slight changes to the bill.

[3:56:42 PM](#)

CHRISSEY MCNALLY, Staff, Representative Lindsey Holmes, Alaska State Legislature, on behalf of the sponsor, Representative Lindsey Holmes, stated HB 125 would allow patients with glaucoma and other related eye diseases to receive a limited refill of prescription eye drops if an individual runs out of medication before the prescribed refill date. Prescription medication is dispensed in a specific number of dosages and eye drops are no exception; however, when a medication comes in a pill form it is still usable if it is dropped, but in contrast, if a patient blinks away an eye drop, the dose is lost. For patients who suffer from degenerative eye diseases, such as glaucoma, who have unsteady hands this may mean running out of medication prior to the prescribed refill date and these require daily treatment from prescription eye drops to maintain proper vision, which can worsen without regular application of drops.

MS. MCNALLY explained that this bill will allow patients to receive a limited refill of prescription eye drops if an individual runs out of medication before the prescribed refill date so long as the doctor agrees. Currently, some insurance plans restrict patients from refilling medications earlier than the typical single month or 90-day refill date. A typical insurance provider will pay for a standardized one month or three month supply of medication. This is not an uncommon provision for Medicare; however, a gap exists within private coverage and simply put, patients who are insured by carriers within that gap run the risk of running out of their medication before the refill is allowed. This bill would allow their doctor to extend the prescription and help keep them healthy.

[3:58:31 PM](#)

MICHAEL LEVITT, American Academy of Ophthalmology, stated that similar legislation has been enacted in a number of states, including Connecticut, New Mexico, and Maryland. The proposed changes have been vetted through fiscal committees in those states with little or no impact to the state. This bill is focused on a narrow band of patients, not including Medicare patients since the provision is already covered by a similar policy. The goal of this bill is to ensure patients continue their care for chronic diseases that are potentially blinding.

[4:00:18 PM](#)

CHAIR OLSON asked for the number of states that currently offer the proposed provisions for refills.

MR. LEVITT answered four or five states. This effort began in 2009, with some states being more active than others in terms of proactive legislation; however, the American Academy of Ophthalmology has had a high success rate when the state's ophthalmological society decides to focus on this specific issue.

CHAIR OLSON asked whether any states that have adopted these changes have withdrawn from the changes.

MR. LEVITT answered none.

[4:01:24 PM](#)

REPRESENTATIVE SADDLER asked whether Mr. Levitt anticipated any increase in the cost for eye medication with passage of this bill.

MR. LEVITT responded that he has not seen any reports of increases. He reiterated that this is focused on a very narrow but serious problem; however, there have not been any reports from insurance companies of an explosion in costs.

[4:02:22 PM](#)

REPRESENTATIVE SADDLER asked whether there is any risk of abuse of eye medication.

MR. LEVITT explained these are chronic diseases. He surmised that any abuse should come to the attention of a physician. Typically, the drugs are used to treat glaucoma, are anti-viral, or are antibiotics and doctors have not reported this type of problem to date.

[4:03:35 PM](#)

REPRESENTATIVE SADDLER related the bill provides for a limited refill of topical prescription medicine and he asked whether this has been quantified to be limited to a number of days or weeks left in the prescription.

MR. LEVITT answered this is one of the issues that is being discussed.

REPRESENTATIVE HOLMES answered that she has been working on one potential change to the bill, which would limit the number of refills.

[4:04:58 PM](#)

SHEELA TALLMAN, Senior Manager, Legislative Policy, Premera Blue Cross/Blue Shield of Alaska (Premera), stated that Premera provides coverage to over 100,000 members in Alaska, to individuals, families, small employers, large employers, as well as provides service to larger self-funded employer groups in the state. She advised that Premera has an early refill medication policy for members. Initially, Premera had concerns about the early refill of refills of prescription eye medications. However, she has appreciated the sponsor's willingness to address Premera's concerns, which she believed would be addressed in subsequent changes to HB 125 the committee may choose to adopt.

[4:06:39 PM](#)

[HB 125 was held over.]

The committee took an at-ease from 4:07 p.m. to 4:08 p.m.

HB 74-AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

[4:08:44 PM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 74, "An Act relating to development project financing by the Alaska Industrial Development and Export Authority; relating to the dividends from the Alaska Industrial and Export Authority; authorizing the Alaska Industrial Development and Export Authority to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

[4:09:01 PM](#)

CHAIR OLSON explained that the committee previously heard this bill and public testimony has been closed. He explained that the liquefied natural gas (LNG) and trucking of LNG and propane was removed from this bill, and therefore what remains in the

proposed committee substitute (CS) for HB 74 is the authority to allow the Alaska Industrial Development and Export Authority (AIDEA) the ability to provide direct financing on projects.

4:09:33 PM

REPRESENTATIVE REINBOLD moved to adopt the proposed committee substitute (CS) for HB 74, labeled 28-GH1738\N, Bailey, 3/20/13, as the working document.

CHAIR OLSON objected for the purpose of discussion.

4:10:08 PM

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

MARK R.DAVIS, Deputy Director, Infrastructure Development, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), introduced himself.

MR. LEONARD summarized that for the past three years AIDEA has been working with the legislature to help modernize the tools AIDEA has to use. He offered his belief that this bill contains one tool to assist AIDEA in development projects. This vehicle will assist AIDEA in working with the banking industry in Alaska, as partners on development projects. For example, he related that AIDEA's loan participation program has been wildly successful, with over \$468 million of financing for Alaska businesses. He offered his belief that this tool will assist AIDEA in moving forward with banks and by helping AIDEA match financing to specific projects. He explained in some instances AIDEA should own a portion of a project, such as major infrastructure industrial road projects in which numerous entities use the project. However, in some instances, it makes more sense for AIDEA to promote the project through financing. Certainly, reasons exist in which AIDEA would not want to own a portion of the projects, such as for mineral projects. In those instances, AIDEA might be involved in promoting a mill in an area to provide major resource development; however, AIDEA may not want to take on environmental risks. As the financier, AIDEA's role is as the lender but not in dismantling a project, reclamation of tailings, or other aspects of a mining project. He concluded that this direct financing will provide risk mitigation since AIDEA would not be involved as an owner.

Finally, he offered that this tool will be a very efficient and effective vehicle to work with Alaska's financial institutions to promote projects in Alaska.

[4:13:24 PM](#)

REPRESENTATIVE JOSEPHSON was unsure of what it meant to finance a project but not own it. He understood the economic or legal reasons, but he was unsure of the separation.

MR. DAVIS replied he believes AIDEA's issue is not to avoid risk but to manage risk. He explained that when investing in a large-scale project that may be extended, the financing entity does not have any day-to-day authority over the project, but could become unintentionally liable for an operator's mistake. Therefore, traditionally, lenders don't have liability for the project, but owners do. Further, if AIDEA were to act as an owner, AIDEA would need to engage in more transaction costs, which are costs that don't move the project forward, but cost the state money.

CHAIR OLSON provided an example in which AIDEA owns a rig, but every time it is used the rig hits gas. He offered his belief the company is on its fourth well.

MR. LEONARD clarified that AIDEA has collateral on Buccaneer's rig moving out, but not for the on-land operation.

[4:15:58 PM](#)

REPRESENTATIVE JOSEPHSON recalled that AIDEA participates in loan assistance programs.

MR. LEONARD answered that AIDEA has three main programs, including the loan participation program, in which AIDEA partners with banks on loans. He summarized that AIDEA can buy up to 90 percent of the loan up to \$20 million. In essence, AIDEA partners with banks on these loans to provide long-term financing. In response to a question, he clarified that is different than direct financing.

MR. LEONARD explained that the second program is AIDEA's development financing, in which AIDEA provides financing for projects, but must have an ownership stake. Thus AIDEA can either invest in a project via a limited liability corporation (LLC) or have direct ownership. Over the last couple of years one of the tools AIDEA has worked with the committee on has been

the ability to own investments through corporations instead of direct ownership. Third, AIDEA can also issue bonds for projects using its revenue bond or conduit bond program. However, this bill would allow AIDEA the ability to provide financing for projects and instead of having an ownership stake in a project, AIDEA would provide direct financing for the project - with no intention of direct ownership - or AIDEA could provide guarantees on a project. For example, if a bank wanted to partner with AIDEA, the corporation could layer a guarantee of the financing for the project.

MR. DAVIS concurred.

[4:18:31 PM](#)

REPRESENTATIVE JOSEPHSON asked if this bill is not passed, whether AIDEA would still consider ownership in projects such as the Niblack Project in Southeast Alaska or whether the lack of direct financing would end the possibility of involvement.

MR. LEONARD said it becomes a potential in how to consider the project, since risk assessment is a portion of the project. It could change the cost of the financing; however, he suggested that changing this type of financing tool does not change the projects or the amount of the investment. Instead, this bill provides a tool that AIDEA believes is more effective. Therefore, no; it would not change AIDEA's ability to participate in the Niblack Project, but it would carry more risk with the financing of the project.

MR. LEONARD recalled an advantage previously discussed, such that with direct financing the transactional cost is much less than for ownership. He explained AIDEA would need to spend more money to write up, in essence, a partnership, than it would spend through direct financing, and as Mr. Davis mentioned, all different scenarios must be considered when AIDEA is a partner versus being limited as a financier.

[4:20:27 PM](#)

REPRESENTATIVE JOSEPHSON asked what other development projects AIDEA is considering for direct financing. The one that came to his mind was the rare earth project.

MR. DAVIS answered that AIDEA is considering direct financing for any industrial plant it may wish to finance due to

operational issues, as well as for financing opportunities. He stated that AIDEA might not do a project because AIDEA tries to work with the private sector, and with project financing, AIDEA can attract commercial bank financing; however, if AIDEA is an owner, it seeks equity partners such as investment banking. Thus, AIDEA would be limited in the type of banking it could approach. Thus, AIDEA would tend to use direct financing when it would like to work with commercial banks; and use financing when it would like to invest in a plant or facility with a limited life. Additionally, as Mr. Leonard said, AIDEA would invest when it did not see a purpose for state ownership of the infrastructure, but again, as previously mentioned with a road with access needed, AIDEA may wish to require ownership interest in order to require the influence.

[4:22:05 PM](#)

MR. LEONARD outlined three projects AIDEA would consider for direct financing, including Ucore, Prince of Wales; Niblack; or oil production facilities and industrial facilities, which would be more effective with direct financing than with ownership.

REPRESENTATIVE JOSEPHSON recalled that AIDEA has done direct financing with hotels and office buildings.

MR. LEONARD answered yes.

MR. DAVIS clarified the projects in question really weren't direct financing, but loan participation since those projects are tied to commercial real estate and cannot be used for other purposes; however, it is difficult since AIDEA needs secured interest which is easier to do with real estate since it has an appraised value than with a chattel. He clarified that AIDEA has participated in hotels and bed-and-breakfast operations throughout the state and on investment through loan participation in a production facility in Sitka. He also mentioned AIDEA has office building projects in Fairbanks, Anchorage, and Juneau.

[4:23:31 PM](#)

REPRESENTATIVE JOSEPHSON asked whether Mr. Davis has a sense of the reason the enabling act for AIDEA restricted it to development projects with an ownership interest.

MR. DAVIS answered that his research indicated that AIDEA's statutes were based on a West Virginia development authority,

using a model of project ownership. It appears this model was popular in the 60s and 70s; however, there has been a change in the U.S. such that New Jersey, Massachusetts, and Indiana have moved to project financing. That doesn't mean that having ownership interest isn't a bad tool, so AIDEA is merely asking to have all the tools.

[4:24:30 PM](#)

MR. LEONARD explained that AIDEA can still influence projects with direct financing if a state interest exists. For example, one of the reasons to have ownership of the rig mentioned earlier was to keep it in Alaska waters. He said that could still be done with direct financing through contracts in the loans.

MR. DAVIS offered his belief that not moving out of the jurisdiction would represent a reasonable commercial covenant.

[4:25:43 PM](#)

REPRESENTATIVE REINBOLD moved to report the proposed committee substitute (CS) for HB 74, labeled 28-GH1838\N, Bailey, 3/20/13, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 74(L&C) was reported from the House Labor and Commerce Standing Committee.

[4:26:07 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:26 p.m.