

SENATE FINANCE COMMITTEE

April 16, 2014

9:09 a.m.

9:09:16 AM

CALL TO ORDER

Vice-Chair Fairclough called the Senate Finance Committee meeting to order at 9:09 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair  
Senator Kevin Meyer, Co-Chair  
Senator Anna Fairclough, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Dirk Craft, Staff, Representative Lance Pruitt; Senator Bert Stedman; Representative Peggy Wilson; Christine Marasigan, Staff, Senator Kevin Meyer; Cecile Elliot, Staff, Senator Mike Hawker; Ron Kreher, Director, Division of Public Assistance, Department of Health and Social Services; Ginger Blaisdell, Staff Representative Shelley Hughes; Representative Eric Feige; Michael Paschall, Staff, Representative Eric Feige; Lela Klingert, President, Commercial Fishing Agriculture Bank, Juneau; Astrid Rose, Staff Representative Alan Austerman; Representative Alan Austerman; Vince O'Shea, Vice-President, Pacific Seafood Processors Association, Juneau; Joe Jacobson, Director, Division of Economic Development, Department of Commerce, Community and Economic Development; Representative Benjamin Nageak.

PRESENT VIA TELECONFERENCE

Mark Palmer, President and Chief Executive Officer, Ocean Beauty Seafoods, Seattle; Joe Plesha, Trident Seafoods, Seattle.

SUMMARY

SB 48 PERS CONTRIBUTIONS BY MUNICIPALITIES

SB 48 was SCHEDULED but not HEARD.

CSHCR 15(FIN)

TASK FORCE ON UNMANNED AIRCRAFT SYSTEMS

CSHCR 15(FIN) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN2(LEG).

CSHB 116(L&C)

PERS CREDIT FOR MILITARY SERVICE

CSHB 116(L&C) was SCHEDULED but not HEARD.

CSHB 121(FIN)

COMMERCIAL FISHING & AGRICULTURE BANK

CSHB 121(FIN) was HEARD and HELD in committee for further consideration.

CSHB 160(FIN)

LICENSING OF ATHLETIC TRAINERS

CSHB 160(FIN) was SCHEDULED but not HEARD.

CSHB 204(FIN)

SALMON & HERRING PRODUCT DEV'T TAX CREDIT

CSHB 204(FIN) was HEARD and HELD in committee for further consideration.

CSHB 263(HSS)

EXTEND SENIOR BENEFITS PAYMENT PROGRAM

SCSCSHB 263(FIN) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN1(DHS).

CSHB 268(FIN)

BIG BULL MOOSE DERBIES; SNOW TOWN ICE CL.

CSHB 268(FIN) was REPORTED out of committee with a "no recommendation" and with a previously published zero fiscal note: FN2(REV).

CSHB 293(STA)

LICENSE PLATES

CSHB 293(STA) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN1(ADM).

CSHB 297(FIN)

HOME ENERGY RATING SYSTEMS

SCS CSHB 297(FIN) was REPORTED out of committee with "no recommendation" and with a previously published zero fiscal note: FN1(REV) and forthcoming zero fiscal note from the Alaska Energy Authority.

HB 308 ALASKA SECURITIES ACT EXEMPTIONS

HB 308 was SCHEDULED but not HEARD.

HB 361 LICENSING OF BEHAVIOR ANALYSTS

HB 361 was SCHEDULED but not HEARD.

CSHB 379(FIN)

OIL & GAS PROPERTY TAX

CSHB 379(FIN) was HEARD and HELD in committee for further consideration.

#hb297

CS FOR HOUSE BILL NO. 297(FIN)

"An Act recognizing the Alaska Housing Finance Corporation as the authorizing agency to approve home energy rating systems for the state; and providing for an effective date."

9:10:15 AM

Senator Bishop MOVED to ADOPT the proposed committee substitute for HB 279, Work Draft 28-LS1307\C (Nauman, 4/14/14) as working document. There being NO OBJECTION, it was so ordered.

9:10:49 AM

DIRK CRAFT, STAFF, REPRESENTATIVE LANCE PRUITT, presented the changes in the new CS found in Section 2 and brought to the sponsor by Senator Stedman. He reported that the changes added approval language from the Power Project Loan Fund for the Alaska Energy Authority (AEA) to approve loans for the Blue Lake Hydroelectric Project; he added that the sponsor was in support of the changes.

Senator Dunleavy inquired about the intent of the bill. Mr. Craft replied that the original purpose of HB 297 was to recognize the Alaska Housing Finance Corporation (AHFC) as the state's Home Energy Rating System (HERS) authorizing agency for the purpose of approving HERS use in Alaska. The bill would help to protect the investment the state has made by AHFC in developing its own rating system, AkWarm, as well as the over \$560 million Alaskans invested in the highly successful home energy rebate and weatherization programs. He reported that AkWarm's system and software had been in use and continuously updated since 1996, specifically designed for Alaska and recognized by the Alaska building, real estate, and home loan industries. It was directly tied to AHFC programs such as the home energy rebate and weatherization programs, interest rate reductions for home loans, and Alaska building energy efficiency standards.

Senator Dunleavy noted the CS having made an addition to a loan program and requested an explanation of that section. Mr. Craft deferred the question to Senator Stedman.

Vice-Chair Fairclough asked if it was a fair assessment that the title of the bill allowed for a "hitchhiker" to be easily attached to it as it came before a committee. Mr. Craft responded in the affirmative.

Vice-Chair Fairclough noted that two bills had been rolled into one.

9:13:11 AM

Senator Dunleavy inquired how the addition to the bill affected the overall fund and the ability to dedicate or expend funds to the weatherization program. Mr. Craft did not think the new addition would have an impact.

SENATOR BERT STEDMAN, explained that there was a hydroelectric expansion project in progress in Sitka in which a dam face was being raised 83 feet. The dam was originally constructed in the late 1950s to facilitate the construction and the development of a pulp mill, which was no longer in existence. He explained that the electrical demands of the community of Sitka were such that the dam needed to be raised to the design height to bank additional water. The penstock was being redone, a new powerhouse was being built, and the turbines were being updated. Things were more expensive than anticipated and the community needed an additional \$40 million to complete the project. The state historically had discussed contributing a 50 percent match for hydro projects. The state had about \$49.5 million invested in the project at present. The community was required to supply the remainder of the funding, approximately \$40 million. The legislature was unable to make an appropriation of \$18.6 million to match the funding of 50 percent on the hydro project due to the fiscal shape of the state. Sitka was looking at other alternatives, one of which was to go to AEA to borrow the funds, if available. Sitka tried to put a package together; however, there was not the ability to do a cash infusion for the appropriation. By attaching language to the bill before the committee, it gave AEA authorization to lend the funds, however, there were no funds to lend. He reported the existence of another project on the southern end of Southeast that might not go forward due to ongoing discussions with AEA. The community was in a peculiar position, as legislators are aware that Fairbanks was at \$0.23 a kilowatt hour and most community members heated with oil. Sitka was not far behind Fairbanks in terms of rates. The landing authorization, if executed, would help with the kilowatt charges to the customer and residents of the community. Senator Stedman had hoped the project would be a part of the capital budget, with an appropriation. However, that did not appear to be happening.

9:17:37 AM

Vice-Chair Fairclough noted that Senator Hoffman and Co-Chair Kelly had joined the committee in progress.

Senator Olson noted that the goal was to reduce the cost of electricity in Sitka to the upper teens per kilowatt hour and inquired what the rates were currently. Senator Stedman replied that currently the rate per kilowatt hour (kWh) was \$0.12. He anticipated a rate increase to \$0.16 or \$0.17 per kWh. The community was working on keeping the lower kilowatt consumption users' rates down and balancing efforts with the commercial sector.

Senator Olson noted that the project had a local contribution to it and inquired if the community of Sitka was in favor of the project. Senator Stedman responded that the community was in full support and that the project was currently under construction. He opined that the community was in a position that it had to expand its hydro power. It did not have any other reasonable alternatives. He indicated that the project was approximately two-thirds completed.

Vice-Chair Fairclough CLOSED public testimony.

[9:20:39 AM](#)

Vice-Chair Fairclough discussed a forthcoming zero fiscal note from AEA.

Senator Bishop MOVED to REPORT SCS CSHB 297(FIN), version C, out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SCS CSHB 297(FIN) was REPORTED out of committee with "no recommendation" and with a previously published zero fiscal note: FN1(REV) and forthcoming zero fiscal note from the Alaska Energy Authority.

[9:21:51 AM](#)

AT EASE

[9:22:42 AM](#)

RECONVENED

#hb293

CS FOR HOUSE BILL NO. 293(STA)

"An Act relating to motor vehicle registration plates; relating to special registration plates for firefighters and emergency medical service providers; and providing for an effective date."

9:23:16 AM

REPRESENTATIVE PEGGY WILSON, related that the bill had been held in committee, due to a potential amendment.

Senator Bishop MOVED to REPORT CSHB 293(STA) out of committee with individual recommendations and the accompanying fiscal note.

Senator Olson inquired if there was a question regarding the bill that still needed to be discussed.

9:23:53 AM

AT EASE

9:24:06 AM

RECONVENED

Vice-Chair Fairclough recalled that Senator Bishop had been considering an amendment to the bill.

Senator Bishop explained that he had discussed the issue with the sponsor and had decided not to offer the amendment.

Senator Bishop MOVED to REPORT CSHB 293(STA) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 293(STA) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN1(ADM).

9:24:55 AM

AT EASE

9:25:48 AM

RECONVENED

#hb263

CS FOR HOUSE BILL NO. 263(HSS)

"An Act extending the Alaska senior benefits payment program."

9:26:06 AM

Senator Bishop MOVED to ADOPT the proposed committee substitute for HB 263, Work Draft 28-LS1256\N (Mischel, 4/15/14) as a working document.

Vice-Chair Fairclough OBJECTED for the purpose of discussion.

CHRISTINE MARASIGAN, STAFF, SENATOR KEVIN MEYER, explained that the CS simply changed the date in Section 1, line 6 to 2018, which gave the program a three-year sunset.

CECILE ELLIOT, STAFF, SENATOR MIKE HAWKER, commented that the sponsor had introduced the bill in the hopes of protecting the program for six years. However, she relayed that he appreciated the committee process and would defer.

9:27:46 AM

Senator Dunleavy asked about an increase to the program in each of the following years.

RON KREHER, DIRECTOR, DIVISION OF PUBLIC ASSISTANCE, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, explained that the fiscal note was driven by projected increases in the service population.

Vice-Chair Fairclough WITHDREW her OBJECTION. There being NO further OBJECTION, Work Draft 28-LS1256\N was ADOPTED as a working document.

Vice-Chair Fairclough asked Mr. Kreher to explain the fiscal note.

Mr. Kreher responded that the division was looking at growth in the program over time. He commented that the aging population of Alaska was increasing. There were six full-time positions dedicated to the program and no additional costs outside of the operating budget for the extension. The actual amount in the grant line did not go up at the same rate as the projection in population. The

population projection was propelled by the three different funding levels. The number of people receiving benefits at the highest level, the mid-level, and the lowest level could fluctuate over time. The program could not accurately project at what level the seniors would come into the program. The projections were a best estimate based on the current circumstances within the senior population.

Senator Bishop MOVED to REPORT SCS CSHB 263(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SCS CSHB 263(FIN) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN1(DHS).

[9:30:21 AM](#)

AT EASE

[9:32:29 AM](#)

RECONVENED

#hcr15

CS FOR HOUSE CONCURRENT RESOLUTION NO. 15(FIN)

Relating to the Task Force on Unmanned Aircraft Systems.

[9:33:14 AM](#)

Vice-Chair Fairclough directed the committee's attention to the fiscal note in the amount of \$8,900.

GINGER BLAISDELL, STAFF REPRESENTATIVE SHELLEY HUGHES, relayed that most of the questions from the committee were answered in a previous hearing. She presented a couple of updates in order for the committee to understand how quickly the industry was changing. She continued stating the difference between unmanned aircraft and drones and reported that the term, remotely piloted aircraft (RPA), was being used internationally. She stated that the previous day Google purchased Titan Aerospace, entering into the drone business. Titan Aerospace owned a drone aircraft about the size of a Boeing 767 carrying solar panels to keep it operating. She reported that it was able to remain in flight for two consecutive years without

landing. The intent of its use was to help project data interaction in places where telephone cables or other types of data transfer equipment was not available. It was able to deliver data up to one gigabyte per second which would one day potentially allow consumers to use cell phones anywhere in the world.

Ms. Blaisdell also mentioned the use of hobbyist aircraft as compared to commercial quality aircraft. The phantom quad copter was a small four-rotor helicopter manufactured in China and being sold through Amazon at a rate of 15 thousand per month - an infiltration of just one model of unmanned aircraft into the marketplace. The previous day she learned that someone she knew had two unmanned aircrafts in their office. She pointed out that the industry discovered safety concerns and responded with a new software application for the phantom quad copters that incorporated no fly zones in their programming to keep them away from 350 airports. She opined that the industry was taking a proactive approach to the new technology. Again, she emphasized the quickly changing industry and encouraged the continuation of the task force.

[9:35:52 AM](#)

Senator Bishop asked for a copy of Ms. Blaisdell's update notes for his office.

Senator Bishop MOVED to REPORT CSHCR 15(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHCR 15(FIN) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN2 (LEG).

[9:36:28 AM](#)

AT EASE

[9:43:39 AM](#)

RECONVENED

Vice-Chair Fairclough handed the gavel over to Co-Chair Meyer.

#hb268

CS FOR HOUSE BILL NO. 268(FIN)

"An Act relating to big bull moose derbies and the Snow Town Ice Classic; and relating to permits for games of chance and contests of skill."

9:44:21 AM

Vice-Chair Fairclough MOVED to REPORT CSHB 268(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 268(FIN) was REPORTED out of committee with "no recommendation" and with a previously published zero fiscal note: FN2(REV).

#hb121

CS FOR HOUSE BILL NO. 121(FIN)

"An Act relating to the examinations, board, loans, and records of the Alaska Commercial Fishing and Agriculture Bank; and providing for an effective date."

9:45:02 AM

REPRESENTATIVE ERIC FEIGE, stated that the Commercial Fishing and Agriculture Bank (CFAB) was a great example of the government starting a project and then stepping back and allowing it to succeed in the private sector. The bank was created 34 years prior by an initial investment of \$32 million from the state; as required by the creating statutes, the bank had repaid the state's investment and was currently a private entity owned by its members. He explained that because CFAB was created under specific statutes, it was regulated differently than other banks and credit unions operating in Alaska. The specific statutes that created CFAB assured that it continued to fulfill its original purpose of assisting the commercial fishing and agriculture industry. The bank's board of directors desired to improve the operating ability of the bank by requesting several changes in the operating statutes. HB 121 expanded the types of loans the banks could give to commercial tourism and natural resources industries and removed the maximum loan amounts provided to borrowers. HB 121 also expanded the category of borrowers to include non-resident

owned businesses that were physically located within Alaska, expanded the eligibility of the banks small loan program, and gave the board the ability to set its own compensation level. Finally, to provide CFAB with additional resources to capitalize its ability to provide loans to its members, the CFAB Board requested that the Alaska Banking Commission begin auditing the bank's operations, as was done with other banks in the state. The cost of the audits were born by the bank, not the state.

9:47:16 AM

MICHAEL PASCHALL, STAFF, REPRESENTATIVE ERIC FEIGE, reviewed the sectional analysis of the bill. Section 1 restricted board member requirements to state residency and to those under Alaska Statue 39.05.11 which placed restrictions on appointments to board and commissions (a provision added in the House Finance Committee). He continued with Section 2 which adjusted the lending power of the bank by eliminating the borrowing limits on certain types of loans. It also removed the residency requirement for certain types of capital loans. If the facility was located in the state it expanded the loans. It also made loans available for certain tourist operations and operations dedicated to the development of or exploration of natural resources. He reported that Section 3 required the bank to consider whether the principles of conservation and sustained yield would limit the ability to repay a loan when collateral would primarily be used in a salmon fishery, a provision added by the House Finance Committee. Section 4 added commercial agriculture to the current provisions allowing loans to non-members.

Mr. Paschall continued that Sections 5 and 6 pertained to loans to non-members changing the dollar limitation on the loans to non-members from \$25 thousand to \$50 thousand, and increasing the debt capital ratio of loans to non-members to 25 percent of the total bank assets. Section 7 inserted conforming language pertaining to the bank examinations added in Section 9 and also corrected a change in the language by Legislative Legal Services. He reported that Section 8 allowed the bank to make a list of eligible members that could serve on the board available to the membership for election purposes. Section 9 required the Department of Commerce Community and Economic Development to examine the bank at least once every 36 months as it did with other banks in the state. Section 10 repealed a

limitation on the compensation of directors currently in statute, and allowed the board to set compensation for board members. Previously there was a prohibition on lobbying by the bank. The bank requested the provision be removed in statute but the change that would have done so was removed from the bill. He furthered that Section 11 simply delayed examinations to one year after the effective date of the act so that the bank could be sure to be compliant with the requirements of the banking commission. Section 10 made the act effective immediately.

[9:50:22 AM](#)

Senator Olson inquired what CFAB's current default rate was compared to what it was 5, 10, or 15 years prior. Representative Feige was unsure of the exact number, but understood that it was relatively low. He concluded that the president of CFAB would be able to answer the question.

Senator Olson noted that commercial fishing was a big part of his district and stated that most of the villages that he represented were along the coast. He inquired if different organizations and fishermen were in favor of the bill and if anyone had voiced a position on it. Mr. Paschall replied that there had not been any outside groups that had expressed any direct position on the bill. He explained that the bill only affected the operation of CFAB and did not change any of the policies that pertained to loaning to the fishing industry, rather, it pertained to other industries.

[9:51:49 AM](#)

Senator Olson asked about the inability to lobby on behalf of the bank. Mr. Paschall replied that when the bank was created state funds were involved in its operation. Through the statute that created the bank, one of the requirements outlined was that the bank reimburse the state. Currently, the state did not have an ownership interest in the bank. The governor currently appointed two members to CFAB's board of directors. The other members were elected to their seats. All members had to be members of the bank. The bank operated as a private for-profit corporation and had an interest in having someone in Juneau to track legislation. However, she stressed that with only 10 employees, the bank preferred to hire a representative, a lobbyist by definition.

Senator Olson assumed that other banks had a lobbyist acting on their behalf. Mr. Paschall responded affirmatively.

[9:53:18 AM](#)

Vice-Chair Fairclough directed the committee's attention to page 4 of the bill and expressed a concern about the familiarity of those receiving loans and those making loans. In Section 2, number 15C at least one of the primary obligors of the loan needed to be a member of the bank. She asked for clarification about membership requirements and account status in order to borrow.

Mr. Paschall responded that the provisions being expanded in one section of the bill pertaining to non-members allowed a non-member to receive a limited loan up to \$50 thousand. All other loans provided by the bank required that the person obtaining the loan be a member of the bank. A person was required to purchase one share of class "A" stock and pay a fee equal to 2 percent of a pre-approved loan amount (\$2500 maximum) to establish membership. Once an obligee paid off their loan their membership expired.

[9:55:05 AM](#)

Vice-Chair Fairclough inquired what the catalyst was for the bill's changes. Representative Feige responded that the provisions the bill attempted to change simply expanded the ability to loan larger amounts of money to the tourism and natural resources industries. It also allowed the bank to expand its ability to loan to non-residents. It was required that they have operations and facilities within the state, and were members of the bank. The bill broadened the market in which CFAB could lend. He reported that the "married couple" reference was part of the original statute language.

[9:56:45 AM](#)

Vice-Chair Fairclough noted the new amended language and commented that it could also be referring to additional statute. She pointed to page 6 of the bill and recalled that there had been an increased funding ratio for the debt. She wanted clarification on the ability to extend to 25 percent of an asset base. She asked if it was standard

business practice because she thought debt ratio was supposed to be significantly lower.

Representative Feige pointed to page 5 of the bill in Section 4 and stated that the section of law dealt with loans made to non-members of the bank. The loans to non-members were originally restricted to commercial fishing. The bill would expand to commercial agriculture in remote areas. Section 5 expanded the maximum loan amount made to a non-member. In Section 6 the bank's overall percentage of capital that could be loaned out increased from 8 percent to 25 percent.

[9:58:46 AM](#)

Vice-Chair Fairclough noted that raising the asset base from 8 to 25 percent was financially risky and was not standard business practice. The State of Alaska looked at 8 to 10 percent with its "AAA" rating. She inquired about why the large jump was being proposed. Representative Feige replied that they were referring to the capital of the bank and that the purpose of the bank was to loan out its capital. The legislation limited the amount of the total capital that could be loaned to non-members. Vice-Chair Fairclough iterated her awareness.

[9:59:44 AM](#)

Senator Bishop wanted to know the definition of a state resident. Mr. Paschall responded that the definition in statute applied. Senator Bishop requested that Mr. Paschall provide the statute definition to his office.

Representative Feige responded to Senator Fairclough's question regarding married couples. He referred to page 1, line 14, Section 2 of the bill stating that the language was part of the original statute and the amendments were aligned with existing statute.

Co-Chair Meyer inquired if the bill had gone through significant changes as it progressed through the house. Representative Feige confirmed that there had been a number of amendments adopted during the committee process. Co-Chair Meyer asked if the amendments were amenable to the sponsor. Representative Feige signified that he had accepted them as part of the committee process.

10:01:57 AM

LELA KLINGERT, PRESIDENT, COMMERCIAL FISHING AND AGRICULTURE BANK, JUNEAU, spoke in support of HB 121. She relayed that CFAB was a privately owned and operated financing cooperative that provided loans to residents involved in the commercial fishing, agricultural tourism, and resource-based industries of Alaska. The bank was a product of legislation introduced in the late 1970s. At present, it operated as the sole subject of AS.44.81, which was the focus of HB 21 before the committee. The bank was committed and structured to serve resident individuals and smaller companies in a highly focused and specialized manner. Many of its members and borrowers would not otherwise have access to loan funds in reasonable and constructive terms.

Ms. Klingert continued to address the changes requested in HB 21. She pointed out that the changes sought to provide a level playing field in CFAB's lending authority for all of the industries and markets that it served as well as to allow CFAB the same discretion as other small businesses. She reported that CFAB did not oppose any of the amendments made to HB 121 with the exception of the lobbyist issue. She elaborated that CFAB was 100 percent owned by its membership allowing CFAB to engage a lobbyist to assist in, monitor, and deal with issues that would potentially impact CFAB without using any state funds or resources. She reported that it was the most cost-effective way in which to handle such matters. She reiterated that CFAB and its board of directors supported HB 121.

10:04:11 AM

Vice-Chair Fairclough referred to page 6, Section 6. She asked about the board's reasoning to increase the total ratio of assets to debt from 8 percent to 25 percent. She further commented that the increase could prove to be a higher risk. Ms. Klingert responded that her concerns would be raised in a traditional banking model in which most banks dealt with depositors' money. In the case of CFAB, all of its capital was lent out. Beyond capital, CFAB borrowed money and in turn lent it out. She agreed with Senator Fairclough that the percentage increase was risky. She also reported that CFAB was created to provide financing for industries that were unable to access funding due to their volatile business nature, adding another layer

of lending risk. Section 6 allowed CFAB to make loans to non-members. A requirement of membership was to make a financial investment in the cooperative. Some individuals in rural areas could not afford the mandatory outlay. The original part of the statute was included to allow CFAB to loan up to \$25 thousand for fishing to assist individuals who could not afford a membership investment. She pointed out that part of CFAB's mission was to serve rural parts of Alaska. She affirmed that CFAB's efforts to mitigate risks showed in its lending record.

[10:06:39 AM](#)

Vice-Chair Fairclough noted that CFAB was almost tripling its risk. She stated that the change reflected a 17 percent increase. She furthered that the increase was not being implemented with incremental steps. Klingert responded affirmatively. She indicated that it would be a maximum of \$5 million based on CFAB's capital, currently which represented less than 10 percent of its total loan portfolio. She was uncertain of the loan demand and informed the committee that although the legislation would allow for the increased debt ratio, it was undetermined if management would lend to the full extent.

Vice-Chair Fairclough inquired if there had been unanimous support of the board of directors in making the proposal to come forward. Ms. Klingert replied in the affirmative.

Senator Olson inquired about Ms. Klingert's background and expertise in banking. Ms. Klingert relayed that she had been in banking her entire career. She started out in the operational side of banking and spent a few years working in lending for the government. She also worked for a couple of private institutions. She informed the committee that she had been with CFAB for 26 years.

[10:08:28 AM](#)

Senator Olson expressed his concern about the increase in risk. He recounted the Bank of the North going under and how he was affected personally. He viewed CFAB's money as depositors' money belonging to fishing and agricultural people who had a vested interest in the actions of the bank. He asked whether CFAB was concerned about tripling the current number. Ms. Klingert responded that there were always concerns and CFAB was managing a balance of staying

true to its mission of serving rural folks and staying financially sound. She reported that CFAB's early years were sketchy, particularly in the 1980s when the bank came close to failing. She expressed confidence in CFAB's mission and its staff in order to remain financially sound. The bank's history demonstrated its responsibility which it took very seriously. She agreed that the proposal was risky and also presumed that because of the types of industries it served it was also at a higher risk. She assured the committee that the bank followed a very sound credit practice.

10:10:22 AM

Senator Olson noted that CFAB had voiced reservations about the lobbying aspect of the bill. He asked Ms. Klingert to elaborate and indicated it was a sensitive issue. She agreed that lobbying was a delicate issue but emphasized that CFAB was presently a private entity. She continued that the bank paid taxes. She furthered that even though the bank operated under state statute the bank was private and small in numbers. She indicated that she had a staff of less than 10 people. The commitment of time and financial resources made it very difficult to sponsor legislation in order to change the bank's business plan. She continued that Senator Coghill and Representative Feige had been very generous to take up the legislation. The other item of concern was having to travel with her director to Juneau, which took him away from his post for two or three days at a time. She wanted to better understand why there would be objection for a private company to have the same rights that every other private company had. She reiterated the time and resources that were dedicated to the process of changing the banks' business plan and its inconvenience.

Senator Olson liked the concept of a lending facility that dealt with less than conventional people doing business in volatile markets. He inquired how many rural residents the bank dealt with that were not connected to the road system. Ms. Klingert provided an approximation of about 50 percent of CFAB's membership. Rural members included people from Kenai.

Vice-Chair Fairclough inquired about the number of loans typically issued in a year and CFAB's default rate. Ms. Klingert responded that CFAB received an average of 120 applications annually and made approximately 60 loans per

year. The default rate fluctuated from month-to-month between 2 to 4 percent.

[10:14:25 AM](#)

Co-Chair Meyer noted that CFAB was still under the state's statutes and inquired about the kind of state support it received. Ms. Klingert replied that through the legislative process it received support. She mentioned that a department of the state was one of CFAB's largest competitors making things difficult at times. She appreciated the help of banking and the examiner to put forward legislation to reinstate the examination of CFAB, a provision removed from statute in 2003. She reported that CFAB worked very closely in cooperation with various agencies such as the Commercial Fisheries Entry Commission. She acknowledge the state's overall support.

Vice-Chair Fairclough inquired what kind of assets CFAB was invested in. Ms. Klingert replied that of its assets CFAB's loans represented approximately 98 percent of its assets. She added that CFAB owned its office building in Anchorage.

Co-Chair Meyer CLOSED public testimony.

HB 121 was HEARD and HELD in committee for further consideration.

#hb204

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 204(FIN)

"An Act relating to a product development tax credit for certain salmon and herring products; and providing for an effective date."

[10:18:36 AM](#)

Vice-Chair Fairclough MOVED to ADOPT the proposed committee substitute for HB 204, Work Draft 28-LS0463\Y (Bullard, 4/15/14) as a working document. There being NO OBJECTION, it was so ordered.

[10:19:15 AM](#)

ASTRID ROSE, STAFF REPRESENTATIVE ALAN AUSTERMAN, reported that the changes in the committee substitute were recommended by the legislative legal department. The

department pointed out additions in the title as well the addition of section 9 which fixed uncodified law.

[10:19:55 AM](#)

Vice-Chair Fairclough asked to hear more about the underlying bill.

[10:20:08 AM](#)

REPRESENTATIVE ALAN AUSTERMAN, provided some history as to the reason the bill was before the committee. He relayed that salmon tax credits had been in existence for an extended time and that there had been significant changes and many investments made in the State of Alaska in the seafood industry as a result of the credits. A request was made regarding foregone harvests a few years back by a group of fishermen from the Togiak area in Southwest Alaska. There were large numbers of salmon going up the rivers unharvested because processing capability was not available. The fishermen came forward and inquired that if the herring fishery had a market they believed processors would have the additional incentive needed to encourage them to provide processing capacity for both herring and salmon concurrently. He continued that four years previously the state set aside about \$300 thousand for the Alaska Seafood Marketing Institute (ASMI) to review how to market herring in a way it had not been marketed before. Herring had previously been processed for either bait or row with the remaining carcasses being either ground up or dumped. The state thought the carcasses could be valuable and had spent the past few years looking at the market which showed a very strong desire for another protein to enter the marketplace. The U.S. international food aid program was one entity that expressed interest. The bill would extend the tax credit and add herring to the seafood roster.

Co-Chair Austerman reported an additional item contained in the bill pertaining to byproduct. He indicated that there was a strong desire to see the waste stream turned into a usable product. Currently, efforts were focused on producing a concentrated protein in the form of a dry powder. He pointed out that over time all of the fisheries in the State of Alaska would require 100 percent retention. At present, millions of pounds of product were being dumped in the ocean. The product was not economically viable

because of either being too small or the wrong species. He informed the committee that Europe was moving in the direction of 100 percent retention within the following 10 years. He anticipated pressure being placed on Alaska to follow suit. He expressed his desire for Alaska to move forward with implementing 100 percent retention. He posed the question about what to do with byproduct resulting from commercial fishing. He suggested either product be brought to shore, ground, and thrown back into the ocean, or made into another product.

10:24:30 AM

Representative Austerman continued to speak to the bill. He relayed that in the prior two years the Environmental Protection Agency (EPA) restricted processors from dumping anything into the ocean. Alternatively, processors had to take their byproduct to a bio-dry plant to make into chicken feed. He wanted the state to further pursue the maximum usage of its seafood.

Vice-Chair Fairclough wondered about fishing tax credits. Specifically, she asked if the state was holding down the price of fish and the price consumers paid by continuing to offer tax credits. She understood the state's efforts were made to incentivize, but expressed concern that it was depressing the price of fish.

Representative Austerman thought that the committee would hear more from the department, but observed that fish prices were being held at the current level due to farmed fish entering the global marketplace. The economics associated with farmed fish were much lower than with wild fish. He suggested that although it might be financially prudent for the State of Alaska to invest in the business of farmed fish, he believed it was important to protect Alaska's wild stocks. He was not opposed to Alaska farming fish and was in favor of expanding the base for fishing. He believed a closer examination that would take some time was necessary.

10:27:20 AM

Vice-Chair Fairclough mentioned that over the last eight years in office she observed that credits had not been viewed as cash. The state offered specific industries incentives to promote Alaska's ability to compete. She

wanted to know if the state was achieving its goals with its investments. She referred to the Carolina's and how the federal government subsidized tobacco farms and the associated health costs. She opined that the state was changing the market conditions and depressing costs resulting in a change in behavior. She was not sure if the change was for the better or for the worse. She understood that for those that made money on the issue the tax credit provided their families economic benefits. She wondered whether all of the state's tax credits achieved what the state wanted them to accomplish. She suggested that the Senate Finance Committee take a hard look at all of the tax credits on the books, how they were being utilized, and to what extent they benefit Alaskans.

Co-Chair Meyer appreciated Senator Fairclough's comments. He was under the impression the state was going to attempt to limit some of the tax credits. He argued that just the opposite had happened. He pointed out that at some point the state had to be concerned about the revenue being less than the tax credits.

[10:29:26 AM](#)

Representative Austerman agreed with Senator Meyer and added that there was a bill in the House (HB306) that would place all of the tax credits on a review schedule and a cost benefit ratio formula would be set up and used as an assessment tool. He relayed that the bill had been passed out of the House Finance Committee and was currently in House Rules. He asserted that if the bill did not make it through the House it should be revised and reintroduced. He restated that the state had tax credits in all of its industries.

Senator Meyer remarked that he had hoped to see HB 306 come over to the Senate but that time was running short.

[10:30:52 AM](#)

VINCE O'SHEA, VICE-PRESIDENT, PACIFIC SEAFOOD PROCESSORS ASSOCIATION, JUNEAU, indicated that five of the association's member companies operated 18 salmon processing plants in Alaska. He spoke in strong support of HB 204. He relayed that Pacific Seafood Processors Association (PSPA) had a letter on record and offered to answer any questions from committee members.

Vice-Chair Fairclough asked Mr. O'Shea to speak to the fishery tax. She remarked that it went up in FY 14 to \$27.4 million but was projected to go down in FY 15 to \$26 million in the spring forecast. She further inquired whether it was the actual pounds of fish being brought in that was affecting the forecast or if it was something else.

Mr. O'Shea reported that what processors were paying in a state landing tax was a combination of the volume of fish being purchased as well as the price of the fish. Both numbers were variable. He had a graph that showed the increased value processors were paying for Alaska salmon. Processors were the price takers rather than the price makers in the global market. He pointed out that the change in total revenue fluctuated depending on how much fish was in the quota.

10:33:43 AM

MARK PALMER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OCEAN BEAUTY SEAFOODS, SEATTLE (via teleconference), testified in support of HB 204. He affirmed the effectiveness of the bill and relayed that upon examining the price history of salmon over the previous ten years, prices had not been depressed. He reported seeing grounds price increases year-after-year to the point that the value of the salmon harvest had doubled from the time the original legislation had been introduced. He stressed that the tax credit was not a subsidy of existing markets. The bill had stimulated market diversification through product expansion. Processors had been over-dependent on too few products, canned and frozen, headed and gutted fish. By diversifying its product mix new product markets opened up around the world. The tax credits helped to incentivize processors to create new products and reduced investment risk. Some of Alaska's seasonal fisheries presented challenges due to the kind of investment required and the time constraints in which investments had to be made. The tax credits helped to reduce some of the risk in making big capital investments, helped to create jobs, and provided much more tax revenue for communities and the fishing fleet. The current legislation was a continuation of further investment in the shore-side communities in which Ocean Beauty Seafoods had a presence.

10:36:06 AM

JOE PLESHA, TRIDENT SEAFOODS, SEATTLE (via teleconference), spoke in strong support of HB 204. He pointed out that EPA was considering amending the existing effluent limitation guidelines and requiring screening of all seafood waste in many communities in Alaska, the result of which would require the production of a fish meal or some other byproduct with fish waste. The bill was important for the Alaska salmon industry to remain competitive on a world market basis.

10:37:19 AM

JOE JACOBSON, DIRECTOR, DIVISION OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, conveyed that the department was in support of the bill. He added that without having the ability to turn on a spigot to increase production, the only real way to increase the value of the state's wild fisheries resource was to increase the value of the underlying product through state programs. He reported improvement in quality, marketing via ASMI, and product diversification. Twenty years ago the industry was dependent upon canned salmon and headed and gutted product, largely exported in most cases. He pointed out that one of the reasons fish prices had gone up dramatically was because there was a larger variety of products appealing to different markets around the world.

Mr. Jacobsen relayed that prior to taking over his current position he had been the international director for ASMI. In his position he received feedback from people across the world expressing their approval of the diversification and the quality of Alaska's fish product on the market. He continued that over the past 10 years the price to Alaska's fishermen had increased dramatically. Permit values had increased resulting in more community investment. He added that there was also larger resident participation in the state's fisheries.

Mr. Jacobson remarked that the issuance of tax credits was one of three major components that supported fish prices across the state. The bill was targeted in terms of looking at new can-sized production. A tall can of Sockeye Salmon in the grocery store was currently priced over \$11. Not only was the consumer getting over a pound of fish, too much for the average family, it was a significant amount of

money. By incentivizing the reduction of the can size it allowed the state to maintain a canned market where the state might otherwise lose it. He furthered that with the upcoming EPA effluent limitation guidelines he anticipated significant expenses required into the future. One of the specific provisions in the bill before the committee was a transformation of a waste byproduct into a salable good. He referred to Iceland as an example of a country that had been able to take many things that would have been discarded in the past and transform them into salable goods, which in some cases exceeded the value of the fish themselves. He restated the department's support of HB 204 indicating the help it provided to the fishing industry, the resident fleet putting more money in the hands of the state. He reported that the net revenues from the seafood industries will return monies back to the state. Revenues remained fairly stable.

[10:40:59 AM](#)

Senator Dunleavy inquired if the department viewed the tax credit as permanent or transitional. Mr. Jacobson responded that it incentivized the further transformation of the industry but he believed the state had a significant way to go. He suggested that the quality had additional room for improvement in terms of capturing as much value as was possible. He acknowledged the strides the state had made in quality improvement but also believed there was room for growth. He opined that until the fishing industry reached a plateau the tax credit would continue to play a transformational role. He relayed that a sunset date was included in the bill and that the credit should be treated as a transitional piece.

[10:42:16 AM](#)

Senator Bishop noted that he was not an expert in the seafood industry but had a good working knowledge having been around it the majority of his life. He returned to Mr. Jacobson's comment on reducing can sizes from the 14.75 ounces down to 7.5 ounces. He pointed out that not every processor had the ability to freeze all of its fish. The canned component needed to remain competitive. He specified that everybody benefited from being able to utilize the whole pack. He supported getting 7.5 ounce cans to stay competitive. He praised Ocean Beauty Seafood's efforts in revitalizing the fishery in Kaltag with new technology;

both jobs and economic development resulted from its efforts which benefited rural Alaska.

Mr. Jacobson followed up by indicating that the intent of the tax credit was to ensure that the canned market remained competitive. He estimated that 95 percent of canned fish was packed in 7.5 ounce and 14.75 ounce cans. He stated that in some markets the 7.5 ounce cans were considered too large and furthered that because of the current value of Sockeye salmon even a 7.5 ounce can was expensive for the average person. He stated that Alaska could maintain its market share by reducing the can size. There was a variety of products with different can sizes including 3.5 ounce and 5 ounce cans. The bill did not incentivize producing the same can sizes that have already been produced including the 7.5 ounce and 14.75 ounce cans. He reported that the canned industry was an essential product alternative due to costs.

[10:45:19 AM](#)

Co-Chair Meyer stated that he was having difficulty understanding why the private sector would not just make a can size adjustment on its own without the need for a tax credit. He added that it was business and the free market. Mr. Jacobson responded in agreement to Senator Meyer's comment. He referred to a variety of factors at play. He noted EPA requirements, the continued investments in fillet lines and other value-added processing. He also mentioned time and budget limitations. He alleged that the bill would speed the transformation and emphasized the areas in which the industry had identified as promising areas of expansion.

Co-Chair Meyer surmised that EPA was involved in every industry including the mining, oil, and construction industries.

Co-Chair Meyer CLOSED public testimony.

HB 204 was HEARD and HELD in committee for further consideration.

#hb379

CS FOR HOUSE BILL NO. 379(FIN)

"An Act relating to the limitation on the value of property taxable by a municipality; and providing for an effective date."

10:47:17 AM

REPRESENTATIVE BENJAMIN NAGEAK, presented HB 379 and stated that HB 379 sought to make a legislative change to the formula on how a municipality might use oil and gas property tax revenue. The bill, which he and Senator Olson championed, gave municipalities with oil and gas properties the flexibility to use the revenue for their operating budget. The bill was clear-cut but there was a long history in the law's origin. He provided a recap of history. He reported that the oil and gas property tax laws were passed in 1973; a cap was written into state law about how much property tax revenue could be used for a municipal operating budget. It was a struggle in the early days to form the North Slope Borough. Forty years ago the borough was sued by the State of Alaska and by the oil companies and was told it was not capable of governing. At present, the borough was operating well. The borough had built schools, roads, airports, and utilities with its wealth. Additionally, it paid for services that in other regions were provided by the state. He listed examples such as search and rescue, police, and wildlife management. The departments of the North Slope Borough cooperated with the state, saving the state time and resources. The borough had kept property taxes lower than the state cap. Over the past 34 years the lower rate amounted to about \$1 billion return to the state. He affirmed that the borough did this to be a good partner. The borough's intent was to retain the current mill rate. However, the bill gave the borough the flexibility to move revenue from debt service to the operating budget. The borough no longer needed as much revenue for debt services. It needed funds to maintain existing infrastructure. He requested the support of the committee to advance HB 379.

Senator Meyer indicated that there would be further questions on the bill.

HB 379 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:50:29 AM

The meeting was adjourned at 10:50 a.m.