

HOUSE FINANCE COMMITTEE  
March 26, 2015  
1:33 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

Representative Mark Neuman, Co-Chair  
Representative Bryce Edgmon

ALSO PRESENT

Representative Bob Herron, Sponsor; Dan Winkelman, CEO/President, Yukon-Kuskokwim Health Corporation; Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue.

SUMMARY

HB 101 MUNI BOND BANK LOANS TO REG HEALTH ORGS

HB 101 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson reviewed the agenda for the day. He indicated that he did not intend to move the bill out of committee.

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#hb101

HOUSE BILL NO. 101

"An Act relating to the Alaska Municipal Bond Bank Authority; authorizing the Alaska Municipal Bond Bank Authority to issue bonds or notes for a regional health organization; and providing for an effective date."

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REPRESENTATIVE BOB HERRON, SPONSOR, began by reading the sponsor statement:

Muni Bond Bank loans to Regional Health Organizations

HB 101 provides Regional Health Organizations direct access to the Alaska Municipal Bond Bank (AMBB) for the purpose of issuing debt, in an amount not to exceed \$250 million. In 2014, the Legislature passed SB 218 which allows AMBB to issue bonds on behalf of the University of Alaska for their new power plant. This bill aims to accomplish the same results for Regional Health Care Organizations.

AMBB is a public corporation of the State of Alaska established to aid Alaska municipalities in financing capital improvement projects. AMBB generates funding by selling bonds on the national market, and using the proceeds to purchase bonds from local governments. AMBB leverages its credit ratings into lower interest rates than municipalities would be able to borrow independently. These municipalities then pay principal and interest to the Bond Bank on their debt. Utilization of the State's moral obligation pledge has not cost the State as every loan that the AMBB has entered into over the last 40 years has been paid.

Currently, regional health organizations have indirect access to the Bond Bank by partnering with a municipality to apply to the Bond Bank on a conduit basis. All non-profits that want to issue tax exempt debt in Alaska must do so through a municipality on a conduit basis. However, even though the debtor is not the municipality, not all municipal governments are willing to consider using the Bond Bank on the behalf

of a local non-profit due to the complexity of the bonding process.

#### Benefits of Utilizing the Bond Bank

The Bond Bank has an excellent loan record with 100% of loans repaid and in conjunction with state support, has received "AA+" credit ratings from both Standard & Poor's Ratings Services and Fitch Ratings. Strong credit ratings allow the Bond Bank to borrow money at favorable interest rates. Smaller communities are at a disadvantage in the financial markets. They may have lower bond ratings, and although credit worthy, have not issued bonds or notes, have little outstanding debt, or lack investor familiarity. Over the last 10 years, the Bond Bank has saved Alaskan communities approximately \$112 million, and has secured over \$1.5 billion dollars since inception to finance the construction of key projects; including schools, roads, utilities, harbors, hospitals, and other municipal facilities.

Yukon-Kuskokwim Health Corporation (YKHC) Proposal Regional health organizations in Alaska have been constructing new health infrastructure in coordination with the federal government's Indian Health Service's Joint Venture Construction Program (JVCP). Joint Venture Construction Program is a competitive federal program whereby the regional health organization agrees to construct new health infrastructure and then the federal government will request additional staffing for the new facility from Congress.

Four JVCP projects have recently been built in Alaska. At this time, the federal government is considering two additional JVCP projects in Alaska, one of which is a large rural project with the Yukon-Kuskokwim Health Corporation headquartered in Bethel. YKHCs' project request was recently rated number one in the nation by the federal government out of thirty seven other competitive JVCP applications.

YKHC is currently working with the federal government to renovate the existing Bethel hospital and construct a new primary care clinic costing approximately \$250 million. YKHC will pay for the construction. Federal standards call for Congress to fund approximately 200

new staff in relation to the cost of a construction project, which will also provide an economic opportunity in human capital for the region.

The JVCP will cost the State of Alaska no additional monies, and in fact the improvements are expected to save State funds. The JVCP will bring approximately 200 new permanent positions into Bethel region, paid for by the federal government. The JVCP will create hundreds of new construction jobs in Bethel and elsewhere, paid for by YKHC. The JVCP will improve access and quality of care for the residents of the entire Yukon-Kuskokwim Delta.

Construction in rural Alaska is expensive and therefore affordable financing becomes extremely important for large rural JVCP projects. For this large rural project to be affordable for YKHC, the low interest rates obtainable by the Bond Bank is necessary.

Representative Herron explained that the legislation would allow YKHC, a regional health organization, to have access to AMBB. The legislation did not allow for any preferential treatment of YKHC over any other entity that had access to the bond bank. He reported that the project included the rehabilitation of a hospital and new construction of a primary care facility totaling \$250 million. The project would provide over 200 full-time jobs. The Indian Health Service indicated that it would negotiate a 20-year staffing package. He announced that two staff from YKHC were available for questions from committee members.

Co-Chair Thompson reviewed the available testifiers and asked if there were any questions from committee members.

Representative Wilson asked why YKHC was pursuing financing from AMBB as opposed to other financing options.

Representative Herron deferred to Mr. Winkelman.

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DAN WINKELMAN, CEO/PRESIDENT, YUKON-KUSKOKWIM HEALTH CORPORATION, introduced himself and indicated he was speaking in favor of HB 101.

Representative Wilson restated her question as to the pursuit of municipal bond bank funding.

Mr. Winkelman noted that both of the hospitals in Nome and in Barrow were paid for with IHS dollars. He relayed that currently there was a wait list of projects equaling over \$1 billion; IHS had an extensive queue of projects, of which YKHC was not listed. The queue list had to be opened by congress in order for projects to be added. He relayed that only a small list of projects was available to choose from at present. It was not expected that the list would be opened to further projects anytime in the near future. He suspected that the wait time for a new hospital in Bethel would extend beyond his lifetime.

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Representative Gattis asked why the legislature would limit a change in statute to just YKHC. Mr. Winkelman explained that YKHC, as a regional health organization, was significantly different than other organizations within rural Alaska. He reported that YKHC had third-party monies that other organizations did not have. He argued that access to affordable capital for large projects was limited due to being off of the road system. Yukon-Kuskokwim Health Corporation was looking for the most affordable money possible. Lower-cost financing with a bond bank would equate to a savings of approximately \$100 million in interest monies. The rates were kept low making borrowing more affordable.

Representative Gattis understood that the option was optimal for YKHC. However, she wondered about broadening the legislation to include other entities.

Representative Munoz wondered if YKHC, the primary care center, and the regional hospital were all part of the same entity. Mr. Winkelman replied that the primary care center was part of YKHC, but the hospital was federally owned. He reported working with Congress to have the hospital and the corresponding land ownership transferred to YKHC. He relayed that JVCP required the regional health organization to own the site.

Representative Munoz asked if the YKHC had any outstanding debt. Mr. Winkelman responded in the affirmative. He indicated that YKHC had incurred debt for a new

administrative building constructed in the late 1990s. The municipalities of St. Mary's and Emmonak were the conduits used to access AMBB. He informed the committee that there was approximately \$9 million of associated debt on the note and added that YKHC had recently refinanced the loan with its banker.

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Representative Munoz asked if Mr. Winkelman was aware of any other health organization expressing interest in accessing bond bank funds. Mr. Winkelman responded that there were other organizations such as Norton Sound Health Corporation (NSHC) that were interested in AMBB funding. He detailed that NSHC was seeking monies for clinics in disrepair. He reported that the Denali Commission was no longer funding new construction of village clinics in rural Alaska. He confirmed that other entities were in need of affordable financing.

Vice-Chair Saddler asked Mr. Winkelman to provide historical information about YKHC and its function. He wanted to better understand the roll of YKHC. Mr. Winkelman specified that YKHC was founded in 1969 as a 501(C)3 nonprofit organization; leaders, doctors, and nurses started the company in order to have a say about how health care was going to be delivered in the region. Prior to YKHC's inception, health care in Alaska was only offered through IHS. In the beginning, YKHC contracted with IHS to provide a community health care program and dental and optometry services. In time, the entity elevated to mature contractor status. Yukon-Kuskokwim Health Corporation entered into negotiations with the regional hospital eventually taking over the entire health care delivery system previously run by IHS. He reported that YKHC had 5 subregional clinics, ran 41 village clinics, and served 30 residents in the Yukon-Kuskokwim delta.

Vice-Chair Saddler asked about Mr. Winkelman's reference to "took over." He recapped that YKHC provided IHS with a service, IHS provided compensation to YKHC, and YKHC provided health care services to patients in the region. He wanted to know if YKHC was associated in any way with the regional native corporation. Mr. Winkelman responded that YKHC was independent of the regional native corporation. He detailed that the organization had 21 board members that

were elected to serve 5-year terms. It was required by the Indian Self-Determination Act to have a contract with IHS.

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Vice-Chair Saddler wondered about the governance system prior to the acknowledgement of tribes in Alaska. He assumed that there were 21 different tribes; 1 member per tribe was elected to the board. Mr. Winkelman explained that, prior to recognition, Alaskan tribes got together and elected the tribal councils that existed at the time. The process was basically the same as the current system in place.

Vice-Chair Saddler asked if the people had considered themselves members of a tribe at the time. Mr. Winkelman responded affirmatively.

Vice-Chair Saddler asked Mr. Winkelman to explain about previous financing. Mr. Winkelman explained that JVCP was a program in which IHS agreed to lease and staff new health care facilities that were built by regional health organizations. Yukon-Kuskokwim Health Center was one of 37 applicants from around the country to apply. He detailed that the program was started in 1992 with the first pilot project. There was a long list of awardees, four of which were operating in Alaska. The facilities included; Dena'ina Wellness Center in Kenai, South Central Foundation in the Mat-Su valley [Wasilla], The Tanana Chief's facility [Chief Andrew Isaac Health Care Center] in Fairbanks, and Copper River Native Association Health Center [in Glennallen]. He reported that the four facilities had been running successfully.

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Vice-Chair Saddler wanted to confirm that if a facility was constructed the federal government would fund it and staff it. He also asked if YKHC was seeking funds to build the facility.

Mr. Winkelman responded that HB 101 only gave YKHC the authority to apply for funding with AMBB. It was up to the bond bank to determine YKHC's eligibility for affordable financing. Yukon-Kuskokwim Health Center was also looking to diversify the state's risk by working with the United States Department of Agriculture and other financiers to

diversify the project's financing structure due to its large size.

Vice-Chair Saddler wondered if the project would create any obligations on the part of the state if the bill passed, YKHC was granted funding from the bond bank, and a facility was built. Mr. Winkelman responded that he was not aware of any obligations on the part of the state. He commented that Mr. Mitchell would be able to better respond to Vice-Chair Saddler's question.

Co-Chair Thompson asked about YKHC's bonding through the cities of St. Mary's and Emmonak. He wanted to know the size of the bond and the bond balance. Mr. Winkelman reported that YKHC used Emmonak's and St. Marys' bonding ability in the late 1990s. He estimated the original bonding at \$20 million. The current balance, recently refinanced at a better rate, was approximately \$9 million.

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Representative Guttenberg stated that he represented the cities of Emmonak and St. Mary's and that both had bonding capacity for regional health clinics. He wondered if Bethel had the capacity for the size of bond that was needed. Mr. Winkelman responded that YKHC currently had indirect access to the bond bank through the municipality of Bethel. He relayed that Bethel was adverse to debt accumulation which explained the reason for YKHC bonding via the municipalities of Emmonak and St. Mary's in the 1990s. He believed there was a bonding cap and that the size of the current project was beyond Bethel's bonding capacity.

Mr. Winkelman continued to provide reasons he supported the bill including the benefits of economic development, improved access to health care, quality of care, and job opportunities. He reported that a \$30 million staffing package was being considered along with a yearly maintenance and improvement fund of \$10 million. He explained that he had been aggressive in pursuing JVCP because he was unable to satisfy the health care needs in Bethel. He pointed out that Bethel's current hospital was limited by size and age. He asserted that JVCP was the only way to improve the services to meet the significant needs of the region. He reiterated the success of JVCP in other areas of Alaska. He felt that the bill provided a means to

improve health care for 30 thousand residents in the Yukon-Kuskokwim delta.

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Representative Guttenberg remarked that Fairbanks, Anchorage, Juneau, St. Mary's, and Emmonak all had the ability to access municipal bonds. He suggested that Bethel did not. He asked about Norton Sound and whether Nome had potential bonding capacity. Mr. Winkelman replied that he was talking about Nome and Barrow and furthered that it was not a bonding issue with either community. He explained that they were already in IHS's queue for new construction and that the Nome Hospital was very old. The issue for Bethel was that it would not have the opportunity to expand its 30-year old hospital or construct a new facility through IHS because of Congress' backlog in the funding of new facilities for IHS. He did not believe Bethel would receive any funding. He clarified that Bethel had bonding capacity but in past years had not been willing to accumulate additional debt. He understood that AMBB wanted the legislature to weigh in due to the scope of YKHC's project.

Representative Guttenberg referenced page 2, line 6, Section 6 of HB 101 [many municipalities provide for or partner with nonprofit organizations to provide for delivery of health care]. He wanted to know if Legislative Legal Services thought line 6 was necessary.

Representative Herron remarked that it was obvious that municipalities regularly partnered with nonprofit organizations. He reported that Bethel was presented with three opportunities to go to the bond bank for funding facilities in its community. The first was for an administrative building. The second opportunity came about when the legislature set up a mechanism to build Goose Creek Correctional Center, rehabilitate the Fairbanks jail, and rehabilitate the Yukon-Kuskokwim Correctional Center in Bethel. It was suggested that the municipalities be the conduits, which Bethel opted against. The third time the City of Bethel went to the bond bank was to fund the construction of the court house. Eventually the stated leased the building enabling payments to the bond bank.

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Representative Kawasaki wanted clarity about how IHS' JVCP worked. He understood that the joint venture did not pay for the cost of construction or implementation. He asked if the venture paid for the staff following construction and for the debt.

Mr. Winkelman confirmed that Representative Kawasaki was correct. He explained that the regional health organization would be responsible for building the new facility with its own funds. After a facility was completed IHS would staff the facility based on formulas that considered building size, population, and growth rates. The funds that would be used to pay off indebtedness would be the organization's funds or third party funds (Medicaid, Medicare, private insurance, and self-pay funds) amounting to about \$70 million per year. A portion of the money would be used to make monthly payments to the bond bank.

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Representative Kawasaki asked if a specific type of construction or a specific size was required under IHS' JVCP. He wondered if the regional health organization would qualify for the project if the legislature did not support the entire amount being requested and a smaller facility was built. Mr. Winkelman relayed that the new facility had to be a minimum of 400 thousand square feet. In order to fulfill the square footage mandate the Yukon-Kuskokwim Health Center's plan was to renovate the existing hospital which counted towards the required square footage and to build a new 130 thousand square foot facility located adjacent to the hospital. The primary care clinics would be moved out of the hospital and into the new adjacent building. He furthered that the dental, optometry, and behavioral health units would move into the new facility. The inpatient unit would be moved to the same location as the clinics and the emergency room would be expanded. He claimed that by remodeling the hospital expenses would remain reasonable and keep the amount of new square footage down.

Mr. Winkelman also reported that there might be opportunities to make the facility smaller. However, if the facility were smaller, so would the IHS staffing package.

Representative Kawasaki asked if IHS also paid for maintenance and operation for the life of the loan. Mr.

Winkelman responded that in addition to staffing dollars, IHS also provided maintenance and improvement funds including contract support dollars. He reported that \$30 million dollars was slated for the Yukon-Kuskokwim Health Center's proposal. He estimated upwards of \$20 million to \$30 million in additional dollars which would almost double the existing contract that it had with IHS. Currently YKHC had a contract with IHS in which it received \$71 million annually to run its program.

Representative Kawasaki referred to the 30-page proposal and the financing package contained in the last few pages. He indicated that it stated that YKHC was trying to get \$250 million from the municipal bond bank. He wanted to know the rating YKHC received was contingent on the passage of the bill. Mr. Winkelman asserted that the passage of the bill had nothing to do with the rating. He also specified that YKHC was not seeking \$250 million from the bond bank. The amount was considerably less. In the bill the amount was capped at \$250 million. Yukon-Kuskokwim Health Center had its own monies to contribute and was working with USDA to provide a substantial amount of funding. He anticipated that YKHC would be seeking less than \$200 million from the municipal bond bank.

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Representative Gara placed on record that he had previously represented YKHC about twenty years prior to recover significant monies from IHS. He confirmed that he no longer represented YKHC and did not think there was any kind of conflict of interest.

Representative Gara believed there was a future in lowering medical costs and expanding access with clinics such as what YKHC was proposing. He surmised that the more that people were served in hospitals, the more that medical costs would rise. He commented that there were clinics that were not affiliated with regional health organizations. He wanted to know if HB 101 could be expanded to include non-native health clinics.

Representative Herron deferred to Deven Mitchell.

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DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, informed the committee that it would be an additional policy decision whether to allow other nonprofits to have access to the bond bank. He divulged that if Bethel were to apply on a conduit basis to AMBB for the size of loan being suggested it would be very difficult to approve due to the magnitude and nature of the project. He suggested that if AMBB was more knowledgeable about the non-native health care industry he would be more than willing to have further discussions about an addition to AMBB's mission. He relayed that currently the bond bank had a significant footprint in the health care industry in communities that owned their own hospitals. He provided some examples such as Bartlett Regional Hospital in Juneau, Ketchikan's Hospital, Valdez's hospital, Central Kenai Peninsula Hospital in Kenai, South Peninsula Hospital in Homer, the care facility in Seward, and a facility in Kodiak. He pointed out that the bond bank had funded a variety of facilities in the state that were owned by the community and often operated by a nonprofit.

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Representative Gara asked if nonprofit clinics were currently eligible for bond bank assistance. Mr. Mitchell confirmed that nonprofit clinics were eligible for AMBB assistance. He relayed that Juneau's Wildflower Court, a nonprofit long-term care facility, obtained a loan through the bond bank. The facility shared a location and a mission with Bartlett Regional Hospital. Many of the hospital's major surgery patients were released to Wildflower Court for convalescence. He explained that the facility sat on land owned by the City and Borough of Juneau (CBJ) and was previously bonded on a conduit basis by CBJ. He detailed that when a nonprofit applied for financing with AMBB on a conduit basis the credit that was evaluated was that of only the nonprofit. In the instance of Wildflower Court, before refinancing through AMBB, its credit was a non-investment grade credit with an interest rate of close to 7 percent. He furthered that by refinancing through the bond bank Wildflower Court saw a present value savings of \$5 million. However, in order for Wildflower Court to secure AMBB's financing, CBJ had to incur a \$12 million contingent liability. The bond bank did not have to stress as much with CBJ behind the loan on a moral obligation basis. He continued that in a similar instance moral obligation was more than acceptable from a bond bank perspective.

Representative Gara asked about potential financial risks to AMBB or to YKHC if the legislation was expanded to include nonprofit health clinics. Mr. Mitchell responded that broadening the issue could jeopardize the expansion proposed in the current form of the bill. He stated that health care was not generally viewed favorably by capital markets due to a variety of health care options available in the continental United States. He suggested that if a patient was not comfortable with one health care facility he or she could drive down the road to the next facility. He pointed out that it was possible to do the same thing in Alaska, only with a little less ease (particularly off the road system). He stated that what Representative Gara was suggesting was something the bond bank might be able to manage but would have to exercise care. He relayed that AMBB had not had any defaults since inception. He wanted to maintain a clear record and opined that expansion would make that more difficult.

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Co-Chair Thompson relayed that the bond bank was intended for municipalities. He understood that municipalities had used their authority for other health clinics but had also assumed the responsibility for the loan application and payment. He acknowledged that in the previous year the legislature had expanded the authority to include the university. He wondered if including other nonprofit consortiums would result in any unintended consequences. Mr. Mitchell replied that AMBB's board of directors had discussed the potential outcomes of HB 101 and supported the undertaking. He reiterated asking the question, "Is this a good policy decision to have these partnerships that we are discussing?" He referred to Section 2 of the bill requiring the commissioner of DHSS to provide an opinion on behalf of the state about its financial interest in a proposed project and to weigh in about whether a specific project would be beneficial to regional health care. He believed that, from a policy prospective, the bill was a good idea. He conveyed that it was his job to make sure it was a good idea from a credit perspective.

Co-Chair Thompson asked if there would be any potential financial effects on municipalities if the bonding capacity for regional health care facilities were expanded up to \$250 million.

Mr. Mitchell surmised that there would not be any financial impacts to municipalities. He reiterated that the intent of AMBB's board was to ensure that the program was administered properly. He reported that there were some costs the bond bank subsidized for municipalities and conversely, other costs were not. He suggested that when the program was 100 percent supported by fees collected by users, participating municipalities experienced additional savings and the bank's ability to complete its work was not impacted.

Mr. Mitchell relayed that AMBB had a strategy for its capital reserve requirement. He reported that the bond bank was statutorily required to fund a debt service reserve when it sold bonds. He detailed that funding a debt service reserve was expensive in the current financial environment given that the yield curve went up. He explained that financial investors were at the short end of the yield curve, which, on the taxable side, was not where it had been in the past. He elaborated that treasuries could only yield 1 percent in a two-year time frame. Therefore, with a tax exempt borrowing cost of 3.75 or 4 percent for a 20-year period, it would cost AMBB to have the security feature. He noted that AMBB was considering various strategies to deal with the issue; there was no intention that it would take away from the bank's ability to fulfill its core mission.

Co-Chair Thompson wondered if public financing competed with any private sector financing.

He relayed that there had been discussion about the tribe using a municipal conduit to access the bond bank program; however, the tribe had ultimately chosen to obtain financing from a commercial bank. He surmised that if the program had been modified it would have been easier for the tribe to access the bond bank, which would have most likely resulted in a lower cost of capital. He noted that if a bank such as Wells Fargo was going to provide a commercial loan, it would be just as easy for AMBB to issue its bonds using Wells Fargo as an underwriter. He stated that there were other ways businesses benefitted from financial activity; there were different avenues.

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Vice-Chair Saddler asked Mr. Mitchell if the legislation would impose any implicit hierarchy on the bond bank. He further asked if the legislation would detract from AMBB's primary mission. Mr. Mitchell indicated that the board would have to make a decision about hierarchy. He clarified that his statements reflected his understanding of how the current board would pursue the new activity. He stated that there was no explicit hierarchy of priority.

Vice-Chair Saddler referred to Section 2 of the bill requiring feedback from the commissioner of DHSS. He wondered about the form of state financial benefit and the form of feedback that would be provided by the commissioner. Mr. Mitchell responded that he did not have answers to Vice-Chair Saddler's questions.

Vice-Chair Saddler suggested further clarification be provided by the sponsor of the bill. He also wondered about whether expanding the mission of the bond bank would dilute its ability to carry out its other mission. Additionally, he asked Mr. Mitchell if he was aware of any other regional health corporations making application to the bond bank. Mr. Mitchell conveyed that Norton Sound Health Corporation had expressed interest. He offered that although the bill would provide a potential opportunity for other entities to apply to the bond bank, every entity would be subject to providing documentation such as audited financial statements to demonstrate eligibility.

Co-Chair Thompson mentioned that in the previous year the legislature expanded the municipal bond bank's authority from \$1 billion to \$1.5 billion. He wondered if lending \$250 million for the YKHC project would interfere with servicing municipalities. Mr. Mitchell answered that the legislation created a separate allocation. In addition to the \$1.5 billion there would be \$87.5 million allocation specific to the university and \$250 million allocated to YKHC's project.

Co-Chair Thompson clarified that it would be in addition to the \$1.5 billion. Mr. Mitchell answered affirmatively.

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Vice-Chair Saddler asked if the approval of the legislation and the execution of the financing agreement created any state funding obligation other than through the municipal

bond bank authority. Mr. Mitchell responded that in the event YKHC failed and defaulted on its loan the state would be asked to replenish the reserve to the extent that it was drawn upon. If there was a failure to replenish the reserve the State of Alaska's credit would likely be downgraded.

Vice-Chair Saddler wondered if the State of Alaska was ultimately responsible for YKHC's loan from the bond bank. Mr. Mitchell stressed that the state would not be held liable to repay the loan; however, the state's credit would be downgraded.

Vice-Chair Saddler asked if YKHC would be building the facilities if JVCP was not available. Mr. Winkelman stated that YKHC would not be able to pursue the project without JVCP. The IHS dollars for staffing, maintenance and contract costs were necessary for the project to move forward.

Vice-Chair Saddler understood YKHC's needs. He expressed concerns that the state would be approached to help if the federal government was not able to provide the lease payments and to pay for staff.

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Representative Pruitt asked Mr. Mitchell what the bond bank would be looking for from YKHC in terms of security to proceed with the bonding.

Mr. Mitchell responded that it would be determined in the future based on an interactive process. In general, the bond bank would approach it as it would approach any revenue bond loan. In a revenue bond situation an entity was required to covenant or promise to cover itself in a certain fashion. The bond bank expected a borrower to fund at debt service reserve level. In the event there were operational deficiencies the bank would access those funds first, prior to a draw on the bond bank's reserve fund. A rate covenant that required the borrower to over-collect net revenue to debt service was included in the loan terms. He cited the example of 1.25 times. If the entity failed to over-collect they would be required to notify the bond bank of the failure and to take actions to rectify the situation and meet the collection requirement in the future year.

Mr. Mitchell explained that on a historical basis the borrower provided financial statements confirming its ability to pay debt service. If the entity failed, the bond bank would have the perspective analysis undertaken to ensure that in the future, given the operational changes, there would be sufficient revenue. It was normal to have a revenue system developing a new infrastructure. The bond bank discussed requiring certain payments go directly to a trustee rather than the general fund of the health consortium, the source of disbursements to pay the debt service. He offered that the details concerning payments would be reviewed to ensure debt repayment.

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Representative Pruitt asked if the joint venture would be part of the conversation. Mr. Mitchell replied, "Yes."

Representative Pruitt wanted to better understand why YKHC could not work with the City of Bethel to secure bonding. He was unsure of the amount of bonding available to Bethel or Bethel's bonding limitations. He wondered if the bond bank looked at the corporation's ability to pay or solely at Bethel's ability to pay the bond. Mr. Mitchell replied that the loan amount far exceeded Bethel's debt capacity. He relayed that the bond bank had recently examined Bethel's debt capacity for a pool project. The bank concluded that Bethel's revenue situation with an anticipated sales tax increase only supported about \$20 million in general obligation bonds. He did not ascribe to making \$250 million available to Bethel, a lower-rated community, without a policy decision that determined the appropriateness of the partnership.

Representative Pruitt asked whether the corporation's ability to pay would be considered in the case of a bond being issued to the City of Bethel or if it would only be based on the city's revenue. Mr. Mitchell commented that underlying credit would be taken into account. He relayed that the bond bank's largest borrower was the City and Borough of Sitka. He reported that Sitka had about \$150 million outstanding through the bond bank program made up of a variety of credits. Sitka's full debt portfolio was owned by the bond bank. He suggested that it would be challenging for AMBB to issue a \$250 million loan for a health care business without additional direction from the legislature. He reiterated that he would be uncomfortable

making a magnitude change without the direction of policy makers.

Representative Pruitt surmised that the legislation before the committee included a policy change. He asked about YKHC's ability to pay down debt. He wanted to know if the funds supplied by IHS would be used to repay the bond obligation.

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Mr. Winkelman responded in the negative. He relayed that IHS made it explicitly clear that staffing dollars were not to be used for debt repayments. Yukon-Kuskokwim Health Corporation planned to use funds from revenues paid for through Medicaid, Medicare, private insurance, and self-pay funds totaling \$70 million annually.

Representative Pruitt wanted to fully understand how IHS staffing dollars were to be spent. He asked if the funds could be used to pay for the facility lease or if they were to be used strictly for staffing expenses. Mr. Winkelman confirmed that the IHS staffing dollars only paid for staffing needs. He offered that IHS provided the staffing package and the contract support cost dollars including the maintenance and improvement funds.

Representative Pruitt mentioned a letter received from DHSS indicating that the staffing package was based on appropriations. He wondered what would happen if the federal government decided not to appropriate funds. He wanted to know how that would impact YKHC and how it would impact the corporation's ability to pay its bond obligation. Mr. Winkelman explained that if the federal government did not appropriate funds, YKHC's ability to pay would be impacted. He offered that since 1992 there had never been a problem with appropriations. He also noted that YKHC had over 2 years' worth of reserves for the project in case there were issues. He did not perceive a funding issue.

Co-Chair Thompson mentioned that Renee Gayhart from DHSS was available on the phone for questions.

Representative Wilson suggested that the legislation was not limited to YKHC but was applicable to other similar

organizations. Mr. Mitchell replied that Representative Wilson was correct.

Representative Wilson asked if the change that included the university was the first change to increase the mission of the bond bank.

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Mr. Mitchell responded that the bond bank statute had been changed a number of times over the years. Initially, the bond bank was only a general obligation program, then revenue bonds and the ability to lend to joint insurance associations were added. More recently, he reported seeing expanded authority to borrow for the bond bank. The program was relatively successful with financing community projects, and saving money. The current legislation was an additional step.

Representative Wilson asked if there were other organizations or groups that had approached Mr. Mitchell about bond obligations. If not, she wondered if he anticipated being called upon. Mr. Mitchell answered that he had been approached by a joint action agency. He also stated that the statutes had changed so that the bank could lend to port authorities. The joint action agency was like a port authority in which a number of communities came together for a common goal. He continued that there was a joint action committee that administered the remnants of the Four Damn Pool that was talking about participating in AMBB's program which he felt would more likely fit into the bond bank program criteria.

Representative Wilson asked why the legislature did not give the AMBB the authority to lend money based on market knowledge and other expertise. She wondered why it was necessary for the legislature to decide. Mr. Mitchell responded that he liked the ceiling currently in place. He liked that someone was verifying what the bank was doing rather than confirming activities in the field. He believed that the process of legislation was valid and that making a determination as a group was important for discussion purposes. He felt that the opportunity to explore options was positive. He believed that the core policy question was whether the state should partner with regional health corporations to make a project more affordable. He saw the

opportunity for efficiencies with the bond bank and municipalities.

Representative Wilson asked why YKHC did not apply through Alaska Industrial Development and Export Authority (AIDEA) for funding. Mr. Mitchell understood that YKHC was working with AIDEA. He mentioned that there were certain limitations to AIDEA and that there were times that AIDEA requested changes in legislation for certain types of financing.

Representative Wilson expressed her concern with opening the door to other organizations to access AMBB. She emphasized the success of the bank and was apprehensive about it being compromised. She commented that she would ask additional questions as she better understood the program.

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Representative Kawasaki asked about the payment in place and about over collection. He wondered if YKHC had the ability to pay and could meet revenue requirements. Mr. Winkelman expressed confidence in YKHC's ability to meet its debt obligation with the bond bank. He reported the success of approximately twenty similar IHS joint venture projects contending that the reason for their success was due to the federal staffing dollars.

Representative Kawasaki asked for clarity regarding the term "over collection." Mr. Mitchell explained that the term was in reference to a coverage covenant. He specified that net revenue should not equal debt service and was considered risky. He suggested that if anything went wrong the organization would be deficient. Borrowers were required to over collect as a condition of the loan as a buffer for debt service.

Representative Kawasaki asked for reconfirmation that the health corporation had the necessary funds. He commented that the corporation had been doing very well with its margins. Mr. Winkelman stated that YKHC's financials were very strong. He reported that he was new to his position.

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Mr. Mitchell had one point of clarification. He stated that depreciation was taken after coverage.

Representative Kawasaki asked about the municipal bond bank. He referred to Alaska Statute 44. He stated that the legislature had added a couple of things including the power plant in Section 5 of the bill. He also referred to Section 4 dealing with the retirement system. He wondered if the statute was dealing with the Public Employees' Retirement System (PERS) change in 2008. Mr. Mitchell responded that Representative Kawasaki was correct. He elaborated that it was at the same time that Alaska Housing Finance Corporation (AHFC) received authority to issue pension obligation bonds and created the pension obligation bond corporation. The bond bank was intended to be available for municipalities that wanted to issue pension obligation bonds. However, no municipalities expressed interest.

Representative Kawasaki stated that he had reviewed AMBB's 40-year history of providing financing for capital improvements in communities. Projects included schools, water sewers, public buildings, and docks. He relayed that smaller communities were at a disadvantage financially. He suggested that the bond bank be allowed to operate freely rather than being confined to doing very specific things as identified in statute. He relayed that there were only 5 sections in the legislative finding. Mr. Mitchell responded that he preferred the boundaries set in statute. He indicated that there was some confusion within the statutes because of references to municipalities, the Alaska Municipal League (AML), and political subdivisions. He suggested including municipalities and AML within the category of political subdivisions to alleviate confusion. He reiterated that he was not in favor of allowing the bond bank to act without parameters.

Representative Kawasaki referenced the University of Alaska combined heat and power bond which added \$87.5 million to the previous year's budget. He commented that the total limit of the outstanding bonds was increased by \$600 million. At the time it appeared that the outstanding notes were approximately \$924 million requiring the addition of \$600 million to the limit. He wanted to know if the increased limit was necessary in order to maintain a specific credit rating. Mr. Mitchell responded in the negative. He explained that it was due to the University's

ability to issue debt based on its current credit rating. The University's ability to leverage its revenues was perceived to be limited to a certain amount. In other words, the University had a certain amount it believed it could obtain in the capital budget and needed a backfill of funds. It turned to the bond bank.

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Representative Guttenberg wanted to confirm that the bonds for the YKHC project would not be issued until all of the requirements were met, even with a policy change. Mr. Mitchell confirmed Representative Guttenberg's assumption. He elaborated that the bond bank had a multi-tiered process for evaluating an applicant's credit. The bar was lowered for municipalities that had voter approval through the initiative process to issue general obligation debt. He detailed the evaluation process. He explained that once he reviewed the application he turned it over to an external financial advisor for review. The external financial advisor completed a written evaluation that was submitted to the board of directors. The board of directors evaluated the report and the credit. Under certain circumstances board members encouraged him to take additional measures of protection on specific loans. He asserted that the review process was thorough.

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Vice-Chair Saddler referenced page 4, line 10. He suggested omitting the word, "regional." He assumed that by doing so it would open up a larger pool of entities that could potentially borrow from the bond bank. He appreciated Mr. Mitchell's assurance that the board made mindful decisions and would choose among the different borrowing capacities rightly. He wanted to know if IHS imposed any limitations on providing services to non-tribal members. Mr. Winkelman responded that because YKHC was the largest service provider within the region it served everyone that came through its doors. He believed that most regional health organizations in rural Alaska had an open door policy.

Vice-Chair Saddler remarked that all IHS beneficiaries received services paid at 100 percent. He asked about how non-beneficiaries paid for services and wondered if it was through Medicaid, Medicare, private insurance, and self-

pay. Mr. Winkelman stated that Vice-Chair Saddler was correct.

Representative Herron emphasized that anyone could use the facility. He informed the committee that when he served on the board of directors for the Lower Kuskokwim School District, the district took the position that it did not have to pay for insurance claims for its native employees. However, it was disputed in court and the school district lost.

Co-Chair Thompson asked about whether YKHC would receive an unfair advantage in the marketplace over other community health clinics due to having a low interest loan. Mr. Winkelman answered in the negative. He mentioned that there was one other community health clinic located in Bethel, Bethel Family Clinic. He did not feel that YKHC would be given an unfair advantage. He was not aware of Bethel Family Clinic wanting or having the ability to expand. He knew of only one other provider in Bethel, a dentist who practiced part-time. He reiterated that YKHC was the only health care provider for the 30 thousand residents in the Yukon-Kuskokwim delta especially in the villages.

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Co-Chair Thompson expressed concerns about finding medical staff. He alleged that previously Fairbanks, Anchorage, and other large population centers had problems finding necessary medical staff. He wanted to understand how YKHC intended to attract providers. Mr. Winkelman acknowledged that finding medical staff was extremely difficult. He indicated that he was using over ten recruiting firms currently, in addition to in-house recruiting, to find physicians. He relayed that the hospital was rebuilding its physician base. He reported that it took about one year on average to recruit one physician. Yukon-Kuskokwim Health Corporation searched the nation with the help of the ten recruitment firms offering incentives such as loan repayment. He relayed that the corporation's plan included phasing in services based on being able to recruit staff. Once YKHC obtained financing it would begin recruiting for additional positions.

Representative Munoz referred to the bonding authority extended to the university and how it related to a specific project. She wondered if Mr. Mitchell had an opinion about

tailoring the bill to a certain project. She asked if it would be beneficial and whether he liked the general idea.

Mr. Mitchell responded that the university's authorization was for and limited to power and/or heat projects for the university. He claimed that it would be simpler to have the bill specific to YKHC's project. However, it would potentially cause concerns about creating a slippery slope. He believed there were legal reasons that the bill would have to be carefully crafted identifying some sort of criteria embedded in the legislation. It could not be limited to YKHC.

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Representative Gattis asked Mr. Winkelman about attracting physicians. She admitted that the Washington, Wyoming, Alaska, Montana, and Idaho Regional Medical Education Program (WWAMI) had received a significant amount of attention in recent times. She wondered if Alaska was better off keeping the WWAMI program and possibly expanding it to attract physicians. She relayed that recruitment was a national problem. Mr. Winkelman opined that the WWAMI program was a great and needed program. He claimed that there was a national shortage of physicians. He fully supported the WWAMI program and a great benefit to the State of Alaska. The issue was not limited to rural Alaska but was a problem throughout the state.

Representative Gattis asked if it was specifically an Alaska issue or if the problem was a nation-wide concern. Mr. Winkelman indicated that the issue was felt nation-wide, but more acutely in Alaska particularly in rural areas.

Representative Pruitt asked Mr. Mitchell if he thought the name of the bank, the Alaska Municipal Bond Bank, should remain the same if the bill were to pass. He wondered if requests had been received from other entities besides municipalities to join in the lending pool. He referenced the university that was added to the bond bank's authority the previous year, and the potential to add regional health corporations. He wondered about the interest of other entities seeking opportunities. He wanted to better understand the future discussion about expansion beyond the mission of the bond bank. Mr. Mitchell believed that an entity could have a name and conduct business beyond just

the name's implication. However, there were a number of other pooled programs in the United States that called themselves infrastructure banks or had other less specific titles.

Representative Pruitt wanted to understand what the legislature could, would, and might expect in the future. He wanted to know who had approached the bond bank. He wanted to know the ramifications and discussions that he should expect to hear in respect to the utilization of the bond bank. Mr. Mitchell indicated that he was not only the executive director of the bond bank but he was also the debt manager for the State of Alaska. He discussed different types of financing on and off throughout the year. He reported that he had not had any other group come forward asking for access to the program. He supposed that based on the bond bank's tax-exempt financing, other nonprofit organizations currently borrowing money on a conduit basis through a municipality would be attracted to the program. In Alaska a nonprofit had to borrow money through a municipality in order to access the capital market on a tax-exempt basis. He surmised that there could be some interested group but he was not aware of one.

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Representative Pruitt wanted to confirm that there were other entities that could potentially become interested in the bond bank program. He used Providence Hospital as an example of an entity that might approach the bond bank for funding. He wondered if it would be a policy call to make in the future. Mr. Mitchell thought Representative Pruitt answered his own question.

Representative Kawasaki asked Mr. Winkelman about the last page of the proposal [page 29, Yukon-Kuskokwim Health Corporation 2014 JVCP Application]. He noted a specific timeline to get from point "A" to point "B" and that there were many unknowns at present dealing with financing. He wanted him to review the timeline in terms of financing and commented that he thought it was a worthy project. Mr. Winkelman explained that the timeline was contingent on available financing. He remarked that YKHC was slated to sign the joint venture agreement by summertime. He was putting together a meeting with IHS within a month to confirm a time. He stressed that if YKHC was unable to secure affordable financing the timeline would be pushed

back. It was his goal to keep searching for affordable financing and to do everything he could to ensure the success of the project for YKHC and its financiers. He believed that if YKHC was making progress IHS would be flexible with the timeline. The timeline on the last page was included in YKHC's application contingent on financing. He reiterated that he thought the timeline was somewhat flexible.

[3:10:13 PM](#)

Representative Kawasaki referred to the second to the last page [Page 28, Yukon-Kuskokwim Health Corporation 2014 JVCP Application] that discussed the private financing options and opportunities available. He was curious if the bond bank used the information to determine the viability of the project. He also asked if commercial lenders looked at the ability to borrow from AMBB as an indication of a project's credibility. Mr. Mitchell asked Representative Kawasaki to restate his question.

Representative Kawasaki pointed out that there were a couple of loans noted in the financial plan with the USDA and Bureau of Indian Affairs as well as commercial loans with Wells Fargo and CoBank. He wanted to know if the bond bank's involvement in the process helped the other lenders view the project as viable. He also wondered conversely if the viability of the project would be viewed negatively if any of the lenders were not involved. Mr. Mitchell saw it as a benefit if there were multiple lenders for a large scale project. Certain loans, such as USDA's rural development authority loans, offered fixed rates for very long term (below market at the back end, and over market at the front end because of the yield curve). He continued that just one rate applied to every year. If an organization borrowed from USDA and placed the principle amortization at the back end of the loan and borrowed from a bond bank program on the front end of the loan, the borrower could reduce the total cost of capital. He also suggested that a commercial bank's interest in partnering in a portion of the financing of a facility was an additional confirmation of credibility.

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Co-Chair Thompson indicated that the committee was out of time, thanked the individuals who testified, and invited Representative Herron to make any final comments.

Representative Herron expressed his appreciation for the questions asked by committee members and the interest in the project. He reiterated the creditworthiness of the project. He stressed the importance of improving the health care delivery system in his region. He also emphasized the potential for creating over 200 permanent jobs with the project. He stated that he would seek out the commissioner's approval directly.

HB 101 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson reviewed the agenda for the following Monday.

#  
ADJOURNMENT

[3:15:14 PM](#)

The meeting was adjourned at 3:15 p.m.