

HOUSE FINANCE COMMITTEE  
April 11, 2018  
9:06 a.m.

9:06:17 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Les Gara, Vice-Chair  
Representative Jason Grenn  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Harriet Drummond, Sponsor; Stephanie Butler, Executive Director, Alaska Commission on Postsecondary Education, Department of Education and Early Development; Kelly Cunningham, Analyst, Legislative Finance Division; Britteny Cioni-Haywood, Director, Division of Economic Development, Department of Commerce, Community and Economic Development.

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 221      WORKFORCE & ED RELATED STATISTICS PROGRAM

CSHB 304 (FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1(CED).

HB 304 MICROLOAN REVOLVING FUND & LOANS

HB 221 was REPORTED out of committee with a "do pass" recommendation and with two previously published zero fiscal notes: FN1(CED) and FN2(LWF).

HB 384 REGULATORY COMM OF AK; BROADBAND INTERNET

HB 385 was SCHEDULED but not HEARD.

Co-Chair Foster reviewed the agenda for the day.

#hb221

HOUSE BILL NO. 221

"An Act relating to the duties of the Alaska Commission on Postsecondary Education; relating to a statewide workforce and education-related statistics program; relating to information obtained by the Department of Labor and Workforce Development; and providing for an effective date."

[9:08:05 AM](#)

Co-Chair Foster indicated that the bill had been heard on April 2, 2018 and public testimony has been closed.

[9:08:52 AM](#)

REPRESENTATIVE HARRIET DRUMMOND, SPONSOR, introduced herself. She reported that failure to pass the bill would result in a great deal of wasted work and lost opportunities for the state. She elaborated that the bill clarified the authority of the Alaska Commission on Postsecondary Education (ACPE) to receive and analyze de-identified existing data. She stated that the current Memorandum of Understanding (MOU) would likely not be renewed and expired the current fiscal year. The potential loss of data would result in the destruction of approximately 10 years of data and difficulty in attracting additional funding. She reported that about \$800 thousand to \$1 million, representing roughly 25 percent of the

federal grant, was invested in developing file preparation necessary to load the data. A data base without use would need funding to be reestablished. Cross sector analysis for outcomes reports would be inefficient and cost 25 percent more to generate. The bill provided the opportunity for the legislature to receive data needed to best allocate scarce educational and training resources. The state would realize the full potential of the original \$4 million grant that created the "Outcomes Database".

[9:11:43 AM](#)

Representative Wilson MOVED to ADOPT Amendment 1 (copy on file):

Page 3, following line 19:

Insert a new subsection to read:

"(d) The commission shall provide a method for an individual whose information is received under this section, AS 14.42.030(e)(7) and (8), and AS 23.20.110 to opt out of the individual's unit record being used for the purposes of this section."

Reletter the following subsection accordingly.

Vice-Chair Gara OBJECTED for discussion.

Representative Wilson reviewed the amendment. She explained that the amendment offered an opt out provision. The amendment would allow anyone who objected to their information being utilized could opt out.

Representative Drummond responded that the adoption of the amendment would result in a fiscal impact note. She pointed out that it was not possible to opt out of the data collection for the Outcomes analysis and much of it was required by federal law. An opt out provision required the storage of personal information in order to track individuals that opted out and halt further tracking, thus nullifying the de-identified process for the database. The person that wanted to opt out was required to provide a full name, signature, date of birth, and social security number and apply to the Outcomes Database. The database was

not designed to provide data on individuals since the data was de-identified.

9:13:56 AM

Representative Guttenberg understood the intent of the amendment but surmised that the data was aggregated and de-identified and opting out would create an identifier. He asked whether he understood correctly.

STEPHANIE BUTLER, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, responded in the affirmative. She added that the identified information would have to be saved to be removed from the database.

Vice-Chair Gara objected to the amendment because the APCE stated that the Outcomes Database did not contain an opt out option and he did not understand the need for the amendment since the information remained confidential.

Representative Wilson believed people had a right to protect their information and that people collecting unemployment were unaware that the data was being collected.

A roll call vote was taken on the motion.

IN FAVOR: Pruitt, Thompson, Tilton, Wilson

OPPOSED: Grenn, Guttenberg, Ortiz, Gara, Foster

The MOTION FAILED (4/5).

Co-Chair Foster directed Vice-Chair Gara to review the fiscal notes.

9:17:57 AM

AT EASE

9:20:39 AM

RECONVENED

Vice-Chair Gara reviewed the fiscal notes. He reported that the zero fiscal note from the Department of Commerce, Community and Economic Development (DCCED) (FN1 (EED) was appropriated to the APCE. The second zero fiscal note from

the Department of Labor and Workforce Development (DLWD) (FN2 (LWF) was appropriated to Employment and Training Services.

[9:21:41 AM](#)

Representative Wilson referred to the analysis from page 2 of the DLWD fiscal note where it indicated a cost was associated with the bill. She read the fiscal note analysis:

This legislation would allow the department to disclose data employers submit for mandatory unemployment insurance (UI) reporting to the Alaska Commission on Postsecondary Education in support of a statewide workforce and education related statistics program. However, 20 CFR 603 prohibits the use of the UI Administrative Grant to pay for costs associated with disclosures. Therefore, the requestor must pay for all costs associated with the disclosure of permissible records.

The department is unable to estimate costs associated with these disclosures without knowing the number and frequency of requests. No change to the budget is anticipated at this time.

Representative Wilson surmised that there was a cost, but it was presently unknown. Ms. Butler responded that she had worked with DLWD and acknowledged that the department was very careful to ensure it was fully compliant when dealing with data collection funded through the federal government. Typically, the ACPE would enter into a Request for Services Agreement (RSA) and pay for the cost of DLWD's staff time. She expected the cost to be "minimal." Representative Wilson preferred that a representative from DLWD answer the question.

[9:24:04 AM](#)

KELLY CUNNINGHAM, ANALYST, LEGISLATIVE FINANCE DIVISION, had spoken with the department and confirmed that the requester of the data was required to pay. The Department of Labor and Workforce Development had sufficient authority to enter the RSA and charge and collect for the data.

Representative Wilson asked if a fiscal note should have been generated by ACPE. Ms. Cunningham deferred the answer to Ms. Butler.

Ms. Butler replied that currently the cost was unknown but expected that the cost was minimal. She added that the department entered the RSA process with DLWD annually for data sharing. Representative Wilson asked where the funds to pay for the program originated. Ms. Butler responded that the funds were Interagency Receipts (IA) funded by the student loan corporation. Representative Wilson asked whether corporation funding was the interest paid on student loans. Ms. Butler responded that Representative Wilson was correct.

Vice-Chair Gara added that both agencies had not requested additional funding. He pointed out that both department's fiscal notes stated that they did not anticipate any fiscal impact from the legislation and both believed they could absorb the minimal cost.

[9:27:05 AM](#)

Representative Wilson stated that someone paid for the cost. She wanted to make sure that it was on the record that most of the costs were paid with the high interest charged to students.

Vice-Chair Gara MOVED to report HB 221 out of Committee with individual recommendations and the accompanying fiscal notes.

There being NO OBJECTION, it was so ordered.

HB 221 was REPORTED out of committee with a "do pass" recommendation and with two previously published zero fiscal notes: FN1(CED) and FN2(LWF).

[9:28:41 AM](#)

AT EASE

[9:31:37 AM](#)

RECONVENED

#hb304

HOUSE BILL NO. 304

"An Act relating to the Alaska microloan revolving loan fund and loans from the fund."

[9:32:19 AM](#)

BRITTENY CIONI-HAYWOOD, DIRECTOR, DIVISION OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, reported that the bill amended the micro revolving loan fund. She explained that the fund was created by the legislature in 2012. The purpose of the fund was to encourage entrepreneurs to capitalize on ideas and ingenuity. The fund promoted economic development by assisting small and micro businesses that were unable to access traditional financing. The bill would incentivize the startup and expansion of small and micro businesses with emphasis on rural communities. The fund was initially capitalized with \$2.5 million and currently the balance was \$2.3 million. The fund financed 14 loans to date. She related that new businesses created 80 percent of the new jobs in the country and the bill would help Alaska incentivize economic development during the economic downturn. Small scale startups had difficulty securing funding. An effective microloan program could help rural Alaskan startups and small businesses that could serve as an economic anchor for their communities. She indicated that the loans were available for working capital, equipment, and construction or other commercial purposes. The loans were exclusively for Alaskan owned and operated businesses and the applicant needed to be a resident 12 months prior to the application date. The loans were only valid for expenditures that dated 6 months prior to the date of the application. The maximum loan amount was \$70,000 and any loan over \$35,000 required a bank denial letter. The legislature had previously asked that the division analyze loan funds to ensure they were effective. Currently, the terms and conditions of the micro revolving loan fund were not flexible enough to allow micro businesses to take advantage of the program. The proposed changes in the bill would help facilitate growth in the sector. She reviewed the sectional analysis.

Section 1: Amends the ceiling loan amount to correct an oversight in the original legislation to require a bank denial for loans above \$35,000.

Section 2: Increases the maximum loan term from 6 years to 15 years and amends the minimum interest rate from 6.00% to 4.00%.

Section 3: Defines that any statutory change is not retroactive.

Ms. Cioni-Haywood added that the bill also increased the interest rate calculation by one percent. Currently, the interest rate is prime plus one percent and the bill changed it to prime plus 2 percent. The interest rate calculation change accommodated increased risk and brought the interest rate inline with other loan programs.

Co-Chair Foster asked what the prime rate was presently. Ms. Cioni-Haywood answered that the prime rate was 4.75 percent. She added that the interest rates changed quarterly.

[9:37:28 AM](#)

Representative Pruitt asked about the effect of the change from 6 to 15 years and how it would affect the size of the requested loans. Ms. Cioni-Haywood replied that currently the average loan was roughly \$20 thousand. She elaborated that the loans were underwritten, and the division scrutinized the business's finances and decided what amount "made sense for the particular business." She thought if the loans were extended out the amount of the loans would increase slightly. The point of the provision was to lengthen the cash flow. She suggested that the debt for a \$70,000 loan extended out over 6 years was very large for a small business and it avoided the risk. Representative Pruitt asked Ms. Cioni-Haywood how she thought the sustainability of the fund would be affected. He guessed that the fund might grow capital due to the longer period of amortization. Ms. Cioni-Haywood responded that she thought he was correct. She added that the interest earned on the money was used to make other loans to potentially more businesses. She noted that the length of the loans could affect the revolving quality of the fund, however she believed such an impact would be minor due to the small amount of the loans.

[9:40:39 AM](#)

Representative Pruitt asked why the interest rate was reduced from 4 percent to 6 percent. Ms. Cioni-Haywood reported that the nation had been in a low interest rate environment, but inflation fears was driving the rate upwards. She noted that the interest rate of 6 percent was considered high and was "probably" the reason the fund was underutilized. The division wanted to strike a balance between being "good stewards" of the state's money and making loans to further economic development.

Representative Wilson wondered how many individuals decided not to take out a loan from the fund. Ms. Cioni-Haywood reported that there had been a number of potential loans that had been given an estimation of the loan payment and did not proceed besides the 10 withdrawn loan applications. Representative Wilson suggested to add a sunset date, since there had not been much use of the fund. Ms. Cioni-Haywood had hoped to grow the fund and increase utilization, and a sunset might be a deterrent. Representative Wilson thought that a sunset was a better approach for the state's revolving loan funds, so underutilized funds could be used elsewhere in the budget to spur economic development.

[9:43:21 AM](#)

Representative Thompson asked whether the loans had a fixed interest rate. Ms. Cioni-Haywood replied in the affirmative. Representative Thompson wanted to ensure that the quarterly change in interest rates did not apply to existing loans. Ms. Cioni-Haywood clarified that the loan interest was fixed for the life of the loan. She added that since the interest rate was tied to the prime rate they were adjusted quarterly.

Representative Tilton asked why someone would be denied traditional financing. Ms. Cioni-Haywood responded that typically, some of the reasons for a bank loan rejection were insufficient credit history or insufficient or unacceptable collateral, lack of historical income, high unsecured debt or judgements, lack of relative experience, or high risk industry. Representative Tilton asked about the current terms of a traditional loan. Ms. Cioni-Haywood was unsure of the rate of an equivalent commercial loan. She offered that often banks had risk based interest rates and did not share the information. Representative Tilton asked for clarification about what the division considered acceptable collateral. Ms. Cioni-Haywood responded that the

division looked for an equivalent value that usually comprised of the equipment being purchased or property.

[9:46:24 AM](#)

Representative Guttenberg had a conversation with a representative of several banks. He assured them that he did not want the state to be in competition with the banks. He felt the program provided loans to individuals that otherwise could not obtain a loan. He had provided an example of a small scale woodcutter wanting to buy a skidder and a trailer without a credit history who was denied a commercial loan. He asked if his example applied to the types of individuals that requested a loan from the microloan fund. Ms. Cioni-Haywood responded in the affirmative. She reiterated that any loan request over \$35 thousand needed to show a bank loan rejection letter. She mentioned the division employed the five "C's" of credit.

Representative Tilton referred to the 14 loans currently in the program, she wondered what areas of the state the loans were applied. Ms. Cioni-Haywood responded that most of the loans were from Southeast Alaska and the remaining were scattered throughout the state. Representative Tilton asked how knowledge of the program was disseminated. Ms. Cioni-Haywood responded that the division worked through ARDORs (Alaska Regional Development Organizations), other local organizations, and outreach trips to spread information about the program. Representative Tilton commented that she had not been aware that the state "was in the loan business."

[9:50:29 AM](#)

Vice-Chair Gara liked the way the bill was proposed and liked that the administration thought of ways to improve the program. He shared that the legislature demonstrated its ability to address loan funds that were not working. He did not favor a sunset on the bill.

Representative Wilson did not believe that the legislature was examining state loan funds and was merely "grabbing" underutilized funds based on an assumption that the fund was underperforming. She ascertained that a sunset analyzed the program to determine whether changes were necessary or that it was not working. She supported a sunset date and viewed it as a positive effort.

[9:52:29 AM](#)

Vice-Chair Gara offered that a sunset would end the program and required a brand new bill to pass both bodies to continue the program. A sunset did not simply provide the opportunity to revisit the program and he termed the process as "difficult."

Representative Thompson stated that the indirect expenditure bills included sunset dates that forced the legislature to review a program's efficacy. He felt that a sunset provided the opportunity to review a program.

Co-Chair Seaton suggested that some of the sunset provisions also required an audit and wanted to avoid the expense. He suggested requiring a report presented to the legislature that examined the program's efficacy. He thought a report would be sufficient without having to incur an audit expense.

[9:55:21 AM](#)

Representative Guttenberg related that the Department of Commerce, Community and Economic Development (DCCED) subcommittee looked at its loan funds and the department recommended some "reabsorption" of funds from programs that were not functioning properly. He did not favor a sunset due to the finance subcommittee process. He noted that the subcommittee did remove funds from loan programs that were considered over-capitalized. He maintained that the opportunity to examine the programs already existed.

Representative Wilson asked when the loan fund was established. Ms. Cioni-Haywood responded that the fund was established in December 2012. Representative Wilson did not want an audit and surmised that it was not statutorily required in the current scenario. She believed that loan funds were being randomly removed by the legislature and the governor's office without discussion regarding the efficacy of the programs.

Ms. Cunningham replied that Representative Wilson was correct that an audit was not mandated.

[9:59:28 AM](#)

Representative Tilton thought a sunset was a beneficial way to determine whether a loan fund was working effectively. She asked whether the loans were performing well. Ms. Cioni-Haywood indicated that the loans had done "okay" and revolving loan funds took some time to work optimally. She added that the division had discovered issues with other loan funds. The administration felt that the current fund fit in with the administration's statewide economic development strategy and had a beneficial impact for "nontraditional lifestyle micro businesses."

[10:01:18 AM](#)

Representative Tilton mentioned the collateralization. She wondered what would be done if assets had to be taken. Ms. Cioni-Haywood reported that the division had an active collections department and had one microloan fund loan that was not performing and considered delinquent. She was working with the borrower to develop a new payment schedule. The division worked with borrowers until it made no further sense and pursued repossession of the collateral. Representative Tilton asked how the state recouped the funds from the repossessed collateral. Ms. Cioni-Haywood explained that the division posted items for sale on their website through a sealed auction process.

Representative Kawasaki recounted that Ms. Cioni-Haywood had mentioned that the revolving loan funds needed time to develop. He asked if the microloan fund had been in existence long enough to properly determine whether the proposed changes in the bill were necessary. Ms. Cioni-Haywood replied in the affirmative. She shared that the department had received 33 applications, and some were withdrawn or inactivated for various reasons. Most applicants backed out when the payment schedule was determined. She believed that having the flexibility to tailor terms for a specific loan would increase the success of the programs. She offered that not all loans would be amortized for 15 years and the division would look at the type of collateral and what amount of time made sense for a specific business.

[10:05:22 AM](#)

Representative Kawasaki wondered how a sunset date would work. Ms. Cioni-Haywood reported that the Community Quota Entity (CQE) loan program recently sunsetted. She voiced

that current loans were being serviced and no new loans issued. She thought that fund's money went back to the general fund (GF).

Co-Chair Seaton remembered a sunset bill for the education tax credits that wasn't accompanied by a report. He felt that sunsets should be accompanied by a report.

Co-Chair Seaton MOVED to ADOPT Conceptual Amendment 1 which would require a report about the status of the fund provided to the legislature each year. He stated the following:

"The department shall report to the legislature by January 15, 2022 on the activity, effectiveness, and suggestions for improvement of the loan fund."

Representative Wilson OBJECTED for discussion.

Representative Wilson asked whether the division had done any similar type of reporting in the past. Ms. Cioni-Haywood responded that the division had answered a number of requests from the Legislative Finance Division regarding loan funds. The information was provided in a narrative format reporting the number of loans, balance, and fund activity. She was uncertain whether the division had reported on a specific loan fund. Representative Wilson recounted that the education tax credit bill discussion included making a change to the program and was more thorough than a simple discussion. She wondered about the timing of the report.

[10:10:08 AM](#)

Co-Chair Seaton responded that the report would be due by the 15th of January 2022. He elaborated that he wanted a detailed report and not "just some numbers," that included suggestions for improvements if necessary.

Representative Wilson agreed with the amendment.

Representative Kawasaki appreciated that Co-Chair Seaton clarified the motion. He thought the information was easily accessible and suggestions for improvement achievable. He maintained that the word "effectiveness" was subjective. However, he favored the amendment.

Representative Pruitt asked if there would be a cost to providing the report. Ms. Cioni-Haywood thought the information was mostly maintained and the reporting could be absorbed by the division.

[10:12:23 AM](#)

Representative Pruitt asked if the same reporting should be applicable to other loans especially since the work was not a financial burden to the department. Ms. Cioni-Haywood responded that the division would happily provide the information to the legislature. In the past, the division had provided information regarding the loan funds and similar requests could be accommodated without additional costs to the department. She reported that most of the revolving loan funds had been working very well. The commercial fishing revolving loan fund functioned optimally for decades.

Representative Guttenberg would not speak against the amendment but believed it was redundant. He reported having received and reviewed the information on every loan in DCCED in the finance subcommittee in the current year with the administrative services director of the department. He thought it should be a "normal course of events" each year and was carried out by the subcommittee chair.

Representative Kawasaki agreed with Representative Guttenberg that the reporting should be a normal course of events and favored the amendment especially since the cost to DCCED was minimal. He asked how Ms. Cioni-Haywood would administer the report. Ms. Cioni-Haywood replied that it was a good question and assumed that administrative services would "tag" the mandate and alert the division. Representative Kawasaki suggested putting the reminder on their outlook calendar.

[10:17:23 AM](#)

Representative Thompson had a problem with the sunset date of January 15, 2022. He stated that a sunset bill was required to pass in 2021 to avoid sunseting the program. Co-Chair Seaton clarified that the date reflected the report due date not the sunset.

Vice-Chair Gara suggested moving forward with the amendment and the bill.

10:18:20 AM

Representative Pruitt thought Co-Chair Seaton's point was valid. He was concerned with the workload of requiring DCCED to provide reports on all its loans at different times. He suggested that all DCCED's loans should require the same report on the same date and the information should be streamlined. However, he decided not to add the amendment to HB 304 so the bill could easily move forward in the process.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Conceptual Amendment 1 was ADOPTED.

Co-Chair Foster asked Co-Chair Seaton to restate the amendment for recording purposes.

Co-Chair Seaton repeated his amendment:

"The department shall report to the legislature by January 15, 2022 on the activity, effectiveness, and suggestions for improvement of the loan fund."

Representative Pruitt agreed with the amendment and supported the bill.

Representative Tilton asked for the number of staff the division had to support the loan programs. Ms. Cioni-Haywood reported that the division had 9 loan officers, 4 collections officers, 6 staff in a loan closing section and an uncertain number of accounting staff servicing all 10 revolving loan programs. Representative Tilton wanted to be sure the state was servicing its own loans. Ms. Cioni-Haywood confirmed that the loans were serviced by the division from start to finish.

10:22:41 AM

Representative Wilson asked if the banks issued loans for individuals with past due child support. She noted that the state prohibited loaning to individuals with past due child support. She deduced that a small business would help the individual gain income. Ms. Cioni-Haywood was unsure what a bank would require. However, the state did not make any type of loan if there was past due child support.

[10:23:35 AM](#)

Co-Chair Foster OPENED public testimony.

Co-Chair Foster CLOSED public testimony.

Vice-Chair Gara reviewed the fiscal note. He reported the zero fiscal note for DCCED, FN1 (CED) appropriated and allocated to the Investments.

Co-Chair Seaton MOVED to report CSHB 304 (FIN) out of Committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

CSHB 304 (FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1(CED).

Co-Chair Foster reviewed the agenda for the following meeting at 1:30 pm.

#

ADJOURNMENT

[10:26:38 AM](#)

The meeting was adjourned at 10:26 a.m.