

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

February 12, 2018

3:17 p.m.

MEMBERS PRESENT

Representative Sam Kito, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Louise Stutes
Representative Chris Birch
Representative Gary Knopp
Representative Colleen Sullivan-Leonard

MEMBERS ABSENT

Representative Mike Chenault (alternate)
Representative Bryce Edgmon (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 304

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

- HEARD & HELD

HOUSE BILL NO. 306

"An Act relating to disbursement options under the Public Employees' Retirement System of Alaska and the Teachers' Retirement System of Alaska for participants in the defined contribution plan; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 304

SHORT TITLE: MICROLOAN REVOLVING FUND & LOANS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/24/18	(H)	READ THE FIRST TIME - REFERRALS
01/24/18	(H)	L&C, FIN
02/12/18	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 306

SHORT TITLE: PERS/TERS DISTRIBUTIONS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/24/18 (H) READ THE FIRST TIME - REFERRALS
01/24/18 (H) L&C, FIN
02/12/18 (H) L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

BRITANY CIONI-HAYWOOD, Director,
Division of Economic Development (DED)
Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Presented HB 304 on behalf of House Rules Committee by request of the governor.

TIM DILLON, Executive Director
Kenai Peninsula Economic Development District
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 304.

NOLAN KLOUDA, Director
University of Alaska Center for Economic Development
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 304.

TRAVIS LEWIS, Vice President
Alaskans for Alaska
Hoonah, Alaska

POSITION STATEMENT: Testified in support of HB 304.

LESLIE RIDLE, Commissioner
Department of Administration (DOA)
Juneau, Alaska

POSITION STATEMENT: Introduced HB 306 on behalf of the House Rules Committee by request of the governor.

KATHY LEA, Deputy Director
Division of Retirement and Benefits
Department of Administration (DOA)
Juneau, Alaska

POSITION STATEMENT: Presented HB 306 on behalf of the House Rules Committee by request of the governor with the use of a PowerPoint presentation.

ROB JOHNSON, Chair

Alaska Retirement Management Board
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 306.

NORM WEST

Alaska Retirement Management Board
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 306.

ACTION NARRATIVE

[3:17:12 PM](#)

CHAIR SAM KITO called the House Labor and Commerce Standing Committee meeting to order at 3:17 p.m. Representatives Stutes, Knopp, Josephson, Wool and Kito were present at the call to order. Representatives Birch and Sullivan-Leonard arrived as the meeting was in progress.

HB 304-MICROLOAN REVOLVING FUND & LOANS

[3:18:48 PM](#)

CHAIR KITO announced that the first order of business would be HOUSE BILL NO. 304, "An Act relating to the Alaska microloan revolving loan fund and loans from the fund."

[3:19:05 PM](#)

BRITANY CIONI-HAYWOOD, Director, Division of Economic Development (DED), Department of Commerce, Community & Economic Development (DCCED), presented HB 304 on behalf of the House Rules Committee by request of the governor. She discussed the microloan revolving fund and some proposed changes. She said new businesses were responsible for about 80 percent of new jobs across the United States. She underlined that new businesses often have trouble securing standard loans. The fund was created by the legislature in 2012 to promote economic development in Alaska by helping small businesses access capital for Alaska residents.

MS. CIONI-HAYWOOD continued to describe the loan. She stated the maximum amount was \$35,000 and \$70,000 for two people. She said loan requests of \$35,000 or more require a letter of denial from the bank stating reasons for denial. She added loans are for 6 years and interest rates are fixed at the time of approval. She said that other non-state resources must be committed for the use of any project for which the loan will be

used. She added the changes in the proposed bill correct for the lower tier for the bank denial from \$34,999 to \$35,000, increase maximum loan term from 6 years to 15 years, and increase interest rate calculation by one percentage point to put the loans in line with other state loans programs at prime plus 2 percent.

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MS. CIONI-HAYWOOD stated the current loan terms do not incentivize businesses to take risks. The proposed changes would facilitate start-ups by adjusting monthly payments and due to the relatively low loan amount it was expected that the loans would not impact the private banking sector. She shared the hope that growing a small business sector would create more viable business that can be serviced by private institutions in the future.

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REPRESENTATIVE BIRCH asked why the state would want to invest in something that a bank would not supply with a loan.

MS. CIONI-HAYWOOD answered that the loan helps people with no established credit. She explained that the state examines different criteria. She specified that all the loans are collateralized.

REPRESENTATIVE BIRCH asked about the pool from which the loans are drawn.

MS. CIONI-HAYWOOD described which people would be appropriate recipients for the loan and what kind of businesses were likely to be involved.

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REPRESENTATIVE KNOPP asked for confirmation that the minimum amount without a bank letter of denial was \$35,000.

MS. CIONI-HAYWOOD answered that was the current minimum and no change was present in the proposed bill.

REPRESENTATIVE KNOPP remarked that 4 percent over 15 years stands out as low interest rate. He asked about changes in the interest rate over time.

MS. CIONI-HAYWOOD answered that interest rates are set in statute at 2 percent plus prime.

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REPRESENTATIVE SULLIVAN-LEONARD asked about the current balance of the fund.

MS. CIONI-HAYWOOD answered the current cash amount available for lending was \$2.27 million.

REPRESENTATIVE SULLIVAN-LEONARD said she thought it was a lot of risk for the state. She asked about working with banks to assist people to transition to a conventional loan. She asked whether the state loan affected borrowers' credit rating.

MS. CIONI-HAYWOOD answered that the loan did not affect credit ratings. She said the goal is to grow lenders out of the program and towards private lending.

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REPRESENTATIVE STUTES asked how many loans had been issued and what the success rate was on the loans.

MS. CIONI-HAYWOOD answered that currently 33 applications had been received, of which 14 were approved. The principal outstanding was \$93 thousand. She added the department wanted to see the loan fund better utilized. She commented that due to the repayment schedule, some borrowers were not willing to accept the risk.

REPRESENTATIVE STUTES asked about the rate of success in repayment.

MS. CIONI-HAYWOOD answered the current delinquency rate was 6.1 percent.

REPRESENTATIVE WOOL asked how much collateral was required to receive the loan.

MS. CIONI-HAYWOOD answered that collateral can vary from the equipment for which the loan is being sought or an asset such as a car or home.

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REPRESENTATIVE WOOL asked what the current maximum loan was.

MS. CIONI-HAYWOOD answered the current maximum loan was \$34,999 for one person and \$70,000 for two people.

REPRESENTATIVE WOOL asked what would change in the proposed bill.

MS. CIONI-HAYWOOD answered the amount would change from \$34,999 to \$35,000 and the interest rate would change to prime plus 2 percent rather than prime plus 1 percent.

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REPRESENTATIVE KNOPP asked whether the interest rate would fluctuate with prime.

MS. CIONI-HAYWOOD answered the interest rate was fixed but could fluctuate when the Federal Reserve increases the prime rate. She added the rates were set quarterly.

REPRESENTATIVE KNOPP asked whether an individual could be eligible for more than one loan.

MS. CIONI-HAYWOOD answered they could be eligible for one loan per project.

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REPRESENTATIVE WOOL asked how the program is advertised.

MS. CIONI-HAYWOOD answered there is some community outreach but that it is constrained by travel limitations. She added there are different community entities that the department works with to reach out to potential loan participants.

[3:40:04 PM](#)

CHAIR KITO opened public testimony on HB 304.

[3:40:23 PM](#)

TIM DILLON, Executive Director, Kenai Peninsula Economic Development District, testified in support of HB 304. He stated his organization was frequently approached for information on small business loans. He spoke to the proposed improvements to the current microloan revolving loan program. He said his

organization only had enough in their program for six or seven loans, and the state loan program would help them direct small businesses to loan opportunities.

[3:43:42 PM](#)

REPRESENTATIVE BIRCH asked about Mr. Dillon's experience with loans, collateral, risk, and repayment.

MR. DILLON answered his organization has had a lot of success. He mentioned the Kenai River Brewing Company and said his program had made the loan for the brewery's canning machine. He stated his board contains a committee which only looks at loans. He specified his organization issued a maximum loan of \$25,000. He reiterated that any additional help would be welcome.

[3:46:04 PM](#)

REPRESENTATIVE KNOPP asked whether Mr. Dillon had ever referred clients to the state microloan revolving loan program.

MR. DILLON answered in the affirmative. He added that when he was city manager of Seldovia he had directed two businesses to the loan program.

[3:47:33 PM](#)

NOLAN KLOUDA, Director, University of Alaska Center for Economic Development, testified in support of HB 304. He spoke to the importance of creating new jobs in Alaska. He said new businesses are responsible for nearly 100 percent of net employment growth in Alaska each year. He said businesses with fewer than 5 employees create around 3,600 jobs per year. He added around 60 percent of new business owners use their personal savings to start out. He spoke to the risk element. He said that small loans do not tend to be very profitable for banks, which causes banks to "shy away" from smaller loans.

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REPRESENTATIVE KNOPP asked about concerns regarding the success rate of new start-up businesses.

MR. KLOUDA answered that it is something that has to be taken into account. He stated loans have terms and conditions which can mitigate major risk factors. He said cash flow, collateral,

and other risk factors are examined by finance staff. He said the risk factor was not particularly worrisome.

[3:52:57 PM](#)

TRAVIS LEWIS, Vice President, Alaskans for Alaska, testified in support of HB 304. He stated his organization and his family and friends were direct beneficiaries of the state program. He brought up the issue of residency and said he thought it should be stricter. He spoke to family businesses and gave the example of inherited fishing boats or businesses that need to be updated in order to comply with new regulations. He pointed out that many businesses were the continuation of old businesses rather than new businesses. He said small businesses in rural areas were trying to keep winter jobs available. He reiterated his concern that people were applying for the loans who only spent a few months a year in the state, taking opportunities from local people.

CHAIR KITO held over HB 304.

[3:56:35 PM](#)

The committee took an at-ease from 3:56 p.m. to 3:57 p.m.

HB 306-PERS/TERS DISTRIBUTIONS

[3:57:36 PM](#)

CHAIR KITO announced that the final order of business would be HOUSE BILL NO. 306, "An Act relating to disbursement options under the Public Employees' Retirement System of Alaska and the Teachers' Retirement System of Alaska for participants in the defined contribution plan; and providing for an effective date."

[3:57:50 PM](#)

LESLIE RIDLE, Commissioner, Department of Administration (DOA), introduced HB 306 on behalf of the House Rules Committee by request of the governor. She specified that the request had originally come from the Alaska Retirement Management Board (ARMB), which has a committee that helps state employee with Tier IV retirement plans to prepare for retirement.

[3:59:23 PM](#)

KATHY LEA, Deputy Director, Division of Retirement and Benefits, Department of Administration (DOA), presented HB 306 on behalf

of the House Rules Committee by request of the governor. She presented a PowerPoint entitled, "HB 306 / SB 159. PERS/TRS Disbursement Options," [in committee packet]:

MS. LEA spoke to slide 3, "The Issue":

- The PERS/TRS DCR (Tier IV) plans use the statutes as the plan document.
- Any changes to modernize options or to meet new Internal Revenue requirements require a statutory change.
- Statutory changes can take several sessions to accomplish, if at all.
- Meanwhile, participants needs are being unmet.
- This bill would give the DCR plans the same flexibility as the SBS and Deferred Compensation plans.

MS. LEA went on to address slide 4, "PERS/TRS DCR Needs":

- The PERS/TRS DCR plans have vested employees who are retiring and need help facing the challenges of retirement.
- The ARMB Defined Contribution Subcommittee is exploring options that will help participants:
 - o not outlive their retirement savings,
 - o address purchasing power over time, and
 - o protect against market uncertainty.

MS. LEA closed the presentation with slide 5, "Transparent Process for Change":

- Discussions regarding disbursement options are done in a public forum during the selection process.
- Participants and groups representing participants will have input during subcommittee and ARMB committee meetings.
- The process remains public and transparent, but allows for faster adoption of needed change.
- All interested parties are notified of any changes through the regulation process.

[4:02:44 PM](#)

REPRESENTATIVE JOSEPHSON asked about the terms of Tier IV retirement.

MS. LEA answered that in the Defined Contribution Retirement (DCR) plan, an employee is eligible to full retirement disbursement of the state contribution after 5 years of employment. She explained that before the 5th year there is a staggered table for disbursement so that at 2 years the employee receives 25 percent of the state contributions; at 3 years the employee receives 50 percent; at 4 years receives 75 percent; and at 5 years the employee receives 100 percent. She specified that in the DCR plans there is no real retirement, only a disbursement of funds. She underlined there is a tax penalty of 10 percent for early withdrawal before age 59 and a half. She said currently a lump sum disbursement, a periodic payment, or various annuity options are the only options available.

REPRESENTATIVE JOSEPHSON asked what the Alaska Retirement Management Board (ARMB) might add.

MS. LEA answered that an ARMB subcommittee has tasked the Treasury Division and the Division of Retirement and Benefits with exploring options. She stated the group had recently reviewed eight different providers for efficacy and retirement security. She said the plan options fell into three categories: a better annuity, a guaranteed lifetime withdrawal product, and a qualified lifetime annuity that sets aside up a portion of the money to begin to pay out at age 80.

[4:07:38 PM](#)

REPRESENTATIVE KNOPP asked what the state program can do that free markets cannot.

MS. LEA answered the plan is not looking to make money and can offer the plan with lower costs, so can provide members with more money for retirement.

MS. RIDLE added there would be a private sector element involving contracts, but the state can get better rates.

REPRESENTATIVE KNOPP said he wondered about the true savings involved.

[4:11:59 PM](#)

REPRESENTATIVE BIRCH asked whether the state is empowered to set up a Roth IRA.

MS. RIDLE answered that for government defined contribution plans currently only deferred compensation plans are eligible and the state has a Roth option in its plan.

REPRESENTATIVE SULLIVAN-LEONARD asked about a fiscal note for changes in the program.

MS. LEA answered there is a fiscal note and there is no fiscal impact for HB 306. She explained the option are left to the participant to choose and therefore pay additional fees.

REPRESENTATIVE SULLIVAN-LEONARD asked for confirmation that the costs are paid by individual who sign up for the options.

[4:14:26 PM](#)

MS. LEA answered in the affirmative.

CHAIR KITO asked about the motivation behind putting options in statute.

MS. LEA said she could not speak to legislative intent. She added she did work in the division at the time and the division recommendation was not to put them in statute.

[4:15:52 PM](#)

REPRESENTATIVE JOSEPHSON asked for confirmation that the descriptive language that would be deleted in HB 306 was not recommended by the department but had been put in by legislators.

MS. LEA answered in the affirmative. She added that in discussions during the drafting process, the desire was to pattern the plan after the SBS disbursement options. She said the difference was that statute for SBS and for DCR only authorized the backbone of plan, while all other provisions are in the plan document, which is required by IRS. She stated the difference with the DCR plans is that they use statute as the plan document. She explained that while other plans are nimble if changes are needed, DCR plans are not.

[4:17:48 PM](#)

ROB JOHNSON, Chair, Alaska Retirement Management Board (ARMB), testified in support of HB 306. He stated the ARMB had heard that greater flexibility was preferred for retirees. He

confirmed that the legislature had indeed looked to other sources for language and utilized SBS and deferred compensation language. He added that in time, it became clear that greater options were available at no additional cost to the state. He said ARMB agreed with the adoption of the proposed bill.

[4:20:27 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD asked Mr. Johnson to expand on the portability of retirement plans and whether there was a trend of employees not staying in the state system for more than five years.

MR. JOHNSON said he has not looked at the studies, but he had heard that the change to the defined contribution plan had implications for public employee and teacher retention.

[4:22:07 PM](#)

NORM WEST, Alaska Retirement Management Board, testified in support of HB 306. He stated he had over 30 years of experience as a trustee and administrator of employee benefit plans. He added he had seen overseen the management of portfolios worth over \$100 million. He said he had seen many changes in retirement plans over the years. He spoke to defined contribution plans which do not offer a particular benefit and pass the risk of the investment to the participants. He said this was the major change from defined benefit plans. He stated his support for the proposed bill. He underlined the changes in HB 306 were only about methods of disbursement.

MR. WEST explained that the products are essentially structured investment products which allow for periodic payment. He underlined there was no risk to the state and that participants would need to move their payments into a different plan to avoid taxation of the lump sum. He surmised that the statutory limitations had been an oversight.

[4:29:29 PM](#)

CHAIR KITO opened public testimony on HB 306. Upon ascertaining that no one was available to testify, he said he would leave public testimony open for HB 306.

CHAIR KITO held over HB 306.

[4:30:39 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:31 p.m.