

**ALASKA STATE LEGISLATURE**  
**SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**

January 27, 2022

3:30 p.m.

**MEMBERS PRESENT**

Senator Shelley Hughes, Chair  
Senator Robert Myers, Vice Chair  
Senator Elvi Gray-Jackson

**MEMBERS ABSENT**

Senator Lyman Hoffman  
Senator David Wilson

**COMMITTEE CALENDAR**

HOUSE BILL NO. 127

"An Act relating to the Alaska Municipal Bond Bank Authority."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 127

SHORT TITLE: MUNI BOND BANK: UA, LOAN AND BOND LIMITS

SPONSOR(S): REPRESENTATIVE(S) LEBON

03/05/21	(H)	READ THE FIRST TIME - REFERRALS
03/05/21	(H)	CRA, FIN
04/08/21	(H)	CRA AT 8:00 AM BARNES 124
04/08/21	(H)	Heard & Held
04/08/21	(H)	MINUTE(CRA)
04/15/21	(H)	CRA AT 8:00 AM BARNES 124
04/15/21	(H)	Moved HB 127 Out of Committee
04/15/21	(H)	MINUTE(CRA)
04/16/21	(H)	CRA RPT 6DP
04/16/21	(H)	DP: MCCARTY, DRUMMOND, PRAX, MCCABE, SCHRAGE, HANNAN
04/21/21	(H)	FIN AT 1:30 PM ADAMS 519
04/21/21	(H)	Heard & Held
04/21/21	(H)	MINUTE(FIN)
04/26/21	(H)	FIN AT 1:30 PM ADAMS 519
04/26/21	(H)	Moved HB 127 Out of Committee
04/26/21	(H)	MINUTE(FIN)

04/28/21 (H) FIN RPT 7DP 4NR  
04/28/21 (H) DP: EDGMON, LEBON, CARPENTER, THOMPSON,  
JOHNSON, WOOL, RASMUSSEN  
04/28/21 (H) NR: ORTIZ, JOSEPHSON, MERRICK, FOSTER  
05/05/21 (H) TRANSMITTED TO (S)  
05/05/21 (H) VERSION: HB 127  
05/07/21 (S) READ THE FIRST TIME - REFERRALS  
05/07/21 (S) CRA, FIN  
01/27/22 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

REPRESENTATIVE BART LEBON  
Alaska State Legislature  
Fairbanks, Alaska

**POSITION STATEMENT:** Sponsor of HB 127.

DEVEN MITCHELL, State Investment Officer and Executive Director  
Alaska Municipal Bond Bank Authority  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Provided supporting testimony on HB 127.

ANNE RITTGERS, Staff  
Representative Bart LeBon  
Fairbanks, Alaska

**POSITION STATEMENT:** Introduced the sectional analysis for HB 127.

LUKE WELLES, Chair  
Board of Directors  
Alaska Municipal Bond Bank Authority  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information and answered on HB 127.

RENEE GAYHART, Director  
Division of Health Care Services  
Department of Health and Social Services  
Juneau, Alaska

**POSITION STATEMENT:** Provided information and answered questions on HB 127.

MYRON DOSCH, Chief Finance Officer  
University of Alaska Fairbanks  
Fairbanks, Alaska

**POSITION STATEMENT:** Provided information and answered questions on HB 127.

## **ACTION NARRATIVE**

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**CHAIR SHELLEY HUGHES** called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Myers, Gray-Jackson, and Chair Hughes.

### **HB 127-MUNI BOND BANK: UA, LOAN AND BOND LIMITS**

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**CHAIR HUGHES** announced the consideration of HOUSE BILL NO. 127 "An Act relating to the Alaska Municipal Bond Bank Authority." She made remarks.

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**REPRESENTATIVE BART LEBON**, Alaska State Legislature, Juneau, Alaska, sponsor of HB 127, explained that the Alaska Municipal Bond Bank Authority (AMBBA or bond bank) provides bonding financial assistance on projects in Alaska, including regional health organization (RHO) projects. This bill expands the capacity of RHOs to participate through AMBBA, up to 100 percent of the project cost. This bill also expands the University of Alaska's (UA) access to the bond bank to refinance UA debt at a lower rate and finance UA projects. Currently, AMBBA does not have the authority to do either.

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**CHAIR HUGHES** invited Mr. Mitchell to give a brief overview of AMBBA.

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**DEVEN MITCHELL**, State Investment Officer and Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue, Juneau, Alaska, testified by invitation on HB 127. He added that he also serves as the debt manager for the state. The Alaska Municipal Bond Bank Authority is a public corporation in Alaska and has a five-member board.

**MR. MITCHELL** gave a brief overview of AMBBA. In 1975 the Lower 48 had a highly rustic view of Alaska. Lesser-known communities had a difficult time convincing Wall Street to obtain a loan. The state created the Alaska Municipal Bond Bank Authority as a vehicle for municipalities to obtain low-cost funds for capital projects. Since its inception in 1975, the program has expanded beyond just municipalities. The bond bank has issued over 350

loans without one default. He said that commercial loan portfolios have some expectation of default, but AMBBA has zero expectation of default for the type of loans it makes.

MR. MITCHELL described the bond bank's very successful loan model:

1. Staff review projects.
2. External advisors review projects.
3. Market review of projects from rating agencies.
4. Underwriting firms that facilitate the sale of the bonds.
5. Investors that consider purchasing the bonds.

MR. MITCHELL reiterated that the state started AMBBA, so authorized borrowers have access to lower interest rates. The bond bank saved authorized borrowers \$50 million this past year by lowering interest rates from what they would have otherwise achieved on money needed to either refinance or provide for capital projects.

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SENATOR GRAY-JACKSON asked who funded the Alaska Municipal Bond Bank Authority in 1975.

MR. MITCHELL answered that a series of appropriations from 1976 to 1986, totaling \$18.6 million, funded AMBBA. An organization could borrow tax-exempt money, invest it taxable, and keep the difference at that time. The bond bank borrowed money to put in a reserve fund, invested that money in governmental securities that earned more than the loan rate, and kept the difference. It made money on that investment. The earnings from the bond bank's cumulative net assets provide for its slightly over \$1,000,000/year budget, eliminating the need for support from the general fund at this point.

MR. MITCHELL detailed the AMBBA loan process:

1. The bond bank borrows money from third parties.
2. The bond bank uses the borrowed money to purchase bonds from an authorized borrower.
3. The authorized borrower pays the bond bank's debt service, which pays for the bonds.

SENATOR GRAY-JACKSON asked at what interest rate is the bond bank and borrower eligible.

MR. MITCHELL took a moment to review market factors that affect Alaska's credit rating. He stated that the rates vary; it's a market-driven rate. The bond bank achieves a credit rating linked to the state's credit rating. The decrease in the price of oil and the resulting financial difficulties of the state have affected the state's bond rating since FY2015. The bond bank is currently rated A1/A+ by Moody's and Standard & Poor's. In the current interest rate environment, there has been significant compression. There's not much difference between credit radiations, which has benefited the bond bank program.

MR. MITCHELL relayed that in the current interest rate environment, a 20-year loan might be in the 2 percent range

SENATOR GRAY-JACKSON asked what interest rate the bond bank charges borrowers.

MR. MITCHELL answered that the bond bank charges the same rate; the bond bank does not make money off the borrowers. AMBBA offers a service that lowers the cost of good Alaska projects. It benefits the taxpayers or the users of a facility that has a revenue-based charge.

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SENATOR MYERS asked what interest rate RHOs and the UA might expect in the open market.

MR. MITCHELL preceded the answer with a brief financial history of Regional Health Organizations. He said that Alaska tribal health care financial awareness has evolved over the last six years. The Tanana Chiefs Conference (TCC) had an outstanding 7 7/8 percent loan. It issued privately placed bonds with a group of sophisticated investors. TCC entered into covenants that required it to obtain an investment-grade credit rating every year; it tried and failed every year.

MR. MITCHELL said that the Alaska Municipal Bond Bank Authority helped the Tanana Chiefs Conference restructure its means of committing revenue so that the market recognized TCC for its true credit strength. TCC saved \$40 million with its initial transaction financed through the bond bank. TCC used this money to go into Alaska health care and leveraged its knowledge to obtain a higher credit rating. If an entity has a credit rating similar to the bond bank, which TCC does, the expectation is a more modest benefit. However, health care tends to price at a premium. The bond bank is the third-largest issuer of bonds in the state. A borrower may be able to issue bonds independently,

but AMBBA has the knowledge and experience to ease a borrower's administrative burden and save a borrower some money. The benefit will be more significant for some RHOs and less for others.

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SENATOR MYERS asked why the proposed changes in HB 127 are necessary when a bank would probably issue loans to TCC.

MR. MITCHELL answered that a local bank wants something to secure a mortgage-style loan. In contrast, bond issuance requires more of a revenue pledge in a construct that prioritizes the use of revenues. The flow of funds from a given revenue activity secures the bondholder. On Wall Street, not banks in Alaska, investment banks are willing to underwrite TCC bonds. TCC successfully issued its last series of bonds independent of the bond bank.

MR. MITCHELL opined that the statutorily required 49 percent single-project participation cap influenced TCC to issue its last series of bonds independent of the bond bank. He explained that it requires much effort to construct a bond issuance, taking four to six months. It is twice the effort to have two banks, and even if it's slightly cheaper to do so, the administrative burden of two transactions pushed TCC away from using the bond bank.

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CHAIR HUGHES asked with whom AMBBA does business.

MR. MITCHELL stated that it works with political subdivisions, joint action agencies, ferry authorities, and communities. The bond bank has also worked collaboratively with UA for a specific coal-fired power and heat project. Otherwise, AMBBA does not work with private entities. He added that RHOs are nonprofit, tribal entities rather than for-profit businesses. The bond bank does not work with non-political subdivisions.

REPRESENTATIVE LEBON stated that the Alaska banking community views AMBBA as a partner, not a competitor, financing Alaska projects for the benefit of Alaskans. The bond bank fills an empty niche.

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CHAIR HUGHES asked why commercial banking institutions in Alaska are not interested in bond bank-type projects.

REPRESENTATIVE LEBON answered that commercial banks seek federal loan guarantee partnerships to provide financing to RHOs. Commercial banks seek a loan repayment source and collateral with a tangible asset to back a loan. Banks do not want to take possession of the collateral, particularly a regional health organization located in a remote location. Banks are not in the business of operating regional health organizations. Nor do banks want to liquidate a health organization; it is not easy. If a commercial bank participates in the financing, it seeks a partnership. He partnered with the United States Department of Agriculture, the Small Business Administration, Alaska Industrial Development Corporation as loan guarantees for loans in his banking days. He typically processed private sector loans.

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SENATOR MYERS asked why commercial banks shy away when, historically, the bond bank risk portfolio shows zero chance of loan default.

REPRESENTATIVE LEBON answered that a commercial bank's margin of risk and overhead is higher than that of the bond bank, so it follows that the financing rates will be higher. An RHO loan would be two to three times higher if issued by a commercial bank than by the bond bank. Eligible borrowers choose the bond bank over a commercial bank loan for this reason, and the banking community understands it.

MR. MITCHELL added that commercial loan portfolios and bond issuances are structured differently concerning "perception of risk" in the banking industry. Bond issuances are more of a revenue stream pledge. A revenue pledge of the system secures the Anchorage International Airport System bonds; a pledge of the terminal does not secure it. He illustrated the point, stating that the Anchorage International Airport will not be repossessed for default because other remedies are available to investors. This "perception of risk" does not conform to the commercial banking industry's structure requirements, but it does conform to the bond market structure requirements in a high credit profile way.

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CHAIR HUGHES requested a flow chart of a borrower's steps through the bond bank process.

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ANNE RITTGERS, Staff, Representative LeBon, Fairbanks, Alaska, introduced the sectional analysis HB 127. She stated that this bill has three sections:

[Original punctuation provided.]

Sec. 1. AS 44.85.010

Removes the project scope limitation of only heating or energy projects for the University of Alaska Fairbanks

Sec. 2. AS 44.85.090

Removes the 49% project participation on the Alaska Municipal Bond Bank for regional health organization projects

Raises the \$102,500,000 project limit for a single regional health organization project to \$250,000,000

Sec. 3. AS 44.85.180

Raises the \$87,500,000 cap for University of Alaska projects to \$500,000,000

Raises the \$205,000,000 cap for regional health organization projects to \$500,000,000

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CHAIR HUGHES asked the difference between the RHO cap limit in Section 3 and the cap limit in Section 2 for single projects. She also asked why both cap limits need adjustments.

MS. RITTGERS answered that Section 2 refers to the cap limit for a single RHO project. Whereas Section 3 refers to the cap limit for the combined total of all RHO projects.

CHAIR HUGHES asked whether this means one RHO with multiple projects or multiple RHOs.

MS. RITTGERS expressed her belief that both apply.

REPRESENTATIVE LEBON answered that it is more likely to apply to multiple RHOs. Not multiple loans to one RHO.

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SENATOR MYERS asked for the reasons for the significant increase in the cap.

MR. MITCHELL answered that the bond bank's outstanding RHO loans total \$104.3 million, so the requested changes are not a result of pressure on the \$250,000,000 cap. The issue revolves around the 49 percent single-project participation cap. The bond bank anticipates RHOs will want to use its services in the future. He explained that in the last couple of years, several RHO projects around the state have been as large as \$300,000,000 with other smaller projects in the \$40,000,000 range. AMBBA wants to be prepared to respond to credit-worthy projects with a limit that is able to accommodate both small projects and projects of great magnitude. An enlarged authorization would enhance the bond bank's potential to provide value to RHO financing in the future.

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CHAIR HUGHES asked why the legislature set a 49 percent RHO single-project participation cap in 2015.

MR. MITCHELL answered that the state had no experience with this type of program in 2015. The Senate Finance Committee set the 49 percent cap to diminish the "perception of risk." Initially viewed as a non-investment grade program, RHOs are highly rated in the low AA/high A credit categories at this point.

MR. MITCHELL pointed out that AMBBA worked with TCC and the Yukon Kuskokwim Health Corporation (YKHC) on the 2015 legislation. TCC and YKHC had a \$350,000,000 construction project in Bethel, and both organizations were amenable to diluted legislation for two reasons:

- One, it allowed the legislature to test the waters with this type of project.
- Two, TCC and YKHC had lined-up USDA for the remaining funds. He noted that RHOs are in a unique position to utilize USDA funding.

MR. MITCHELL said it is reasonable to increase the allowance so that the bond bank can be a more effective lender in this category.

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CHAIR HUGHES asked how many regional health organizations are in the state and how many have participated in loans from AMBBA.

LUKE WELLES, Chair, Board of Directors, Alaska Municipal Bond Bank Authority, Anchorage, Alaska, stated that he has worked in tribal health for the last twenty years. He answered that tribal health has 40 organizations in Alaska, and six of them have hospitals. Tribal health organizations in Alaska have 212 clinics that range from 1,500 square feet to 15,000 square feet. Alaska tribal health organizations provide health care throughout the state for both tribal members and other community members in rural Alaska. Those needing health care in Dillingham and Naknek go to Bristol Bay. Those needing health care in Nome go to Norton Sound.

MR. WELLES listed the health organizations that have participated in bond bank loans:

- Yukon Kuskokwim Health Corporation, Bethel project
- Tanana Chiefs Conference
- Yakutat
- Seward, Chugachmiut project

MR. WELLES said that the SouthEast Alaska Regional Health Consortium (SEARHC) just completed a \$300,000,000 bond offering on its own for the new hospital in Sitka. They have a variety of other building projects. The Sitka project would have used the bond bank given the opportunity, but the bond bank was unable to meet that need.

MR. WELLES said the opportunity to improve health care quality throughout the state is tremendous, especially in rural areas. He explained the importance of structuring and how it works. The Indian Health Service (IHS) works with a regional health organization or a new facility on a joint venture project. IHS invites a regional health organization to build a facility, then IHS funds a portion of the staffing package through the Title 5 Compact. A portion of the funds may finance bonds. This unique partnering method is able to fund a lot of different infrastructure in the state. Multiple facilities have gone through the process. Everyone understands this is a solid credit risk, including credit rating agencies. This has been one of the tremendous benefits over the years. The financial benefit to make sure all tribal members receive their care from tribal care organizations in the state is huge.

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CHAIR HUGHES expressed appreciation that TCC, in conjunction with the bond bank, saved \$40,000,000 and chose to reinvest those dollars back into care. This has helped Alaskans.

CHAIR HUGHES brought up Medicaid expansion. Alaska Natives that fall under Medicaid expansion are covered 100 percent by the federal government at tribal health care facilities, which means a state match is not necessary. She asked how this might affect the Medicaid budget in the future.

CHAIR HUGHES requested health care cost comparisons/savings for tribal members who use tribal facilities versus tribal members who use non-tribal facilities.

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RENEE GAYHART, Director, Division of Health Care Services, Department of Health and Social Services, Juneau, Alaska, said that the state has a vested interest in partnering with tribes and supporting infrastructure development in various ways. Medicaid reform has taken on a lot of different forms over the years. She cited four Medicaid reform bills:

1. A senate bill from a previous legislature supported 18-bed, long-term care facilities in Bethel and Kotzebue, enabling elders to stay close to home. These 36 elders did not have to transfer to Anchorage or beyond and their care was 100 percent federally funded. The state does pay that tab and "pays and chases" the federal government for 100 percent reimbursement.

2. Senate Bill 88 [ch. 63, SLA 13], Alaska Native Medical Center Housing. This bill assisted with residential housing. It allowed 200 or more individuals to be housed on the Alaska Native Medical Center campus and receive services.

3. Senate Bill 46 [ch. 28, SLA 15], Municipal Bond Bank; Regional Health Organizations; Joint Action Agency. The Division analyzes data. In the case of the YKHC facility, the analysis included whether the in-patient facility had out-patient services, the off-set to the state, whether the facility served the community without incurring transportation costs and out-of-state prices. The Division analyzes this type of data and works with the bond bank to determine the potential cost savings to the state. She said that Medicaid becomes a payer at 100 percent to help the revenue generated pay back part of those loans. The department's role is to look for RHO infrastructure development in outlying areas so that individuals can receive services close to home at 100 percent. The idea is to provide health care services locally, so individuals do not have to leave.

4. Senate Bill 74 [ch. 25, SLA 16], Medicaid Reform; Telemedicine; Drug Database. This bill implemented tribal reclaiming. The Division must process prior period claims as "reclaims" for individuals who have to travel to Anchorage, Seattle, or beyond for services. The Division prefers the state invest in outlying area infrastructure upfront and receive 100 percent rather than chase federal dollars later. It is better access for the individual, reduces transportation, and reduces the Medicaid administrative burden to reclaim dollars.

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CHAIR HUGHES requested the aforementioned fiscal analyses and projected and actual savings.

CHAIR HUGHES mentioned that her husband was the medical director of the Ft. Yukon Clinic years ago. The clinic had not yet implemented an "open to all" policy; families had to get on a plane and fly to Fairbanks for care. She expressed appreciation that tribal health facilities have opened their doors to members of the community.

MS. GAYHART said that she would submit the fiscal analyses as requested.

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SENATOR GRAY-JACKSON requested that Representative LeBon read the sponsor statement for HB 127 into the record.

REPRESENTATIVE LEBON read the sponsor statement for HB 127:

[Original punctuation provided.]

This bill expands the authority of the Alaska Municipal Bond Bank Authority regarding bonding capacity to the University of Alaska and regional health organizations.

Regarding the University of Alaska (UA), the bill proposes two changes:

- Removes the project scope limiting Alaska Municipal Bond Bank Authority participation to only heating or energy projects
- Raises the UA project participation cap from \$87,500,000 to \$500,000,000

REPRESENTATIVE LEBON explained that the \$500,000,000 is just headroom. In the banking industry, headroom must be available before the borrower arrives at the bank, not after.

Previously the University used Municipal Bond Bank participation for funding of the combined heat and power plant at the University of Alaska Fairbanks. This change is intended to provide the University with expanded tools for financing or refinancing, allowing the University to leverage the bond ratings of the Alaska Municipal Bond Bank Authority if advantageous. This additional financing tool is not intended to be a substitute for capital appropriations through the legislature.

REPRESENTATIVE LEBON explained that this change applies to any debt UA may currently hold and will encompass projects beyond just the heat and power plant project.

REPRESENTATIVE LEBON stated that interest rate cycles are unpredictable. Interest rates are creeping up currently, so the window of opportunity is closing a little bit. Even so, it is important to create the eligibility now, so UA is ready to take advantage of favorable interest rates.

REPRESENTATIVE LEBON continued to read the sponsor statement:

Regarding regional health organizations, the bill proposes these changes:

- Removes the 49% Alaska Municipal Bond Bank Authority single-project participation cap
- Raises the cap for all regional health organization projects from \$205,000,000 to \$500,000,000

This change is intended to expand opportunities for regional health organizations to use the Alaska Municipal Bond Bank Authority. In accordance with existing statute AS 44.85.010, the Bond Bank provides capital funds through loans to regional health organizations "when the commissioner of health and human services anticipates a state financial benefit and an increase in regional quality of care." The financial benefit is realized by the state by capturing additional Federal Medicaid reimbursement, assisting the State in reducing Medicaid expenditures.

I would appreciate your support in expanding opportunities for the University of Alaska and Alaska's regional health organizations to utilize the Alaska Municipal Bond Bank Authority.

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CHAIR HUGHES invited Mr. Dosch to testify. She asked what type of projects the university will consider with the passage of HB 127, given favorable interest rates.

MYRON DOSCH, Chief Finance Officer, University of Alaska Fairbanks, Fairbanks, Alaska, stated that the supports this bill and would consider a refinancing opportunity given the university's debt portfolio.

MR. DOSCH said the bond bank has a better credit rating than the university, allowing the university to borrow or refinance at lower interest rates. The university has no projects lined up for financing in the next two to three years, but refinancing would be economically beneficial given the current low interest rate. This bill provides that use of the bond bank is optional. He said that the university would be pleased to have the option of the bond bank available to hit the bottom line and help save money.

CHAIR HUGHES asked how much savings to expect if UA went through the bond bank to refinance.

MR. DOSCH answered that an outlined hypothetical \$50,000,000 bond issuance, over a 30-year term, based on a current credit spread of 10 to 15 basis points, was submitted in a letter of support. The estimated savings would be \$50,000 a year or \$1,500,000 over the life of the bond.

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SENATOR MYERS asked whether the university is considering projects that require the proposed loan limit increase or whether the loan limit increase is a "just in case" idea.

MR. DOSCH answered that the increase in the cap is a "just in case" idea. The university does not have a new project that needs financing right now. The university, primarily, has refinancing opportunities planned within the next two to three years.

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CHAIR HUGHES stated that the university supports HB 127, as does the bond bank. She asked whether the university and bond bank may support this bill independent of the administration.

REPRESENTATIVE LEBON answered that the university's chief financial officer speaks on behalf of the administration.

CHAIR HUGHES clarified the question. She asked whether the bond bank may support this bill independent of the governor's support.

REPRESENTATIVE LEBON answered that the administration has no issue with the bond bank's expanded authority as presented to the committee.

CHAIR HUGHES sought clarification on whether the bond bank and its board have the authority to support legislation independent of the governor.

MR. MITCHELL answered that the bond bank has a separate legal existence from the state and answers to a board, not the governor, on bond bank business. The commissioner of the Department of Revenue hires the state investment officer, and the governor reviews the hire, so the bond bank coordinates with the governor's office. The bond bank went through the legislation vetting process with the governor's office.

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CHAIR HUGHES held HB 127 in committee.

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There being no further business to come before the committee, Chair Hughes adjourned the Senate Community and Regional Affairs Standing Committee meeting at 4:33 p.m.