

Alaska Housing Finance Corporation

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Introduction

State Housing Finance Agencies (HFAs) are state-chartered authorities established to help meet the affordable housing needs of residents of their states. All 50 states have an HFA to address housing issues which are not, or cannot, be provided by the private sector. Alaska Housing Finance Corporation (AHFC) is Alaska's HFA. As a secondary mortgage lender, AHFC offers niche loans, such as first time homebuyer, rural, and veterans mortgages, while working with the private sector rather than competing against it.

AHFC plays a critical industry role. In part, it's because the size of the Alaska market is too small to rely on an out-of-state secondary mortgage lender to rapidly address economic changes. Consequently, AHFC acts as that vital stabilizing entity in the Alaska housing market. The most dramatic example of this role was proven during the housing meltdown of the Alaska market in the 1980s.

AHFC is unique among HFAs with integration of mortgage, public housing, affordable housing development and residential energy-efficiency programs all under one roof. AHFC is nationally recognized as an innovative leader with a skilled management team and maintains one of the highest credit ratings among its peers for an HFA.

AHFC funds its operations and provides a dividend to the state as a result of its mortgage activity, supplemented by investment earnings and federal dollars.

This paper discusses the history, role and functions of AHFC, key initiatives, and management response to economic challenges.

Alaska Housing Finance Corporation

AHFC operates as an independent state agency whose mission is to "provide Alaskans access to safe, quality, affordable housing." It is a public corporation governed by a board of seven directors comprised of three public and four private sector individuals. It is accountable to the people of Alaska, the Governor, Department of Revenue and the Alaska State Legislature but maintains a separate legal existence.

AHFC's mission and functions are authorized in Alaska Statutes, 18.56, *Corporation purpose, structure and powers; subsidiaries; dividend and transfer plan; bonds, mortgage financing and construction standards; senior housing office; energy programs*; 18.55, *Public housing and housing development*; 46.11, *Energy standards*.

Corporate History and Current Environment

AHFC was created in 1971 by the State of Alaska to provide Alaskans with low cost mortgage financing. In 1992, as state government budgets tightened, the Alaska State Housing Authority (ASHA) that managed public housing and the rural loan and energy programs at the Alaska Department of Community & Regional Affairs (DCRA) were merged into AHFC, resulting in the current organization that provides comprehensive state housing services. The employee count rose with the merger to 369.

Today AHFC has 313 full-time PCNs, and authorization for part-time and non-permanent employees, totaling 350. Approximately half of the employees work in the federally funded public housing division. No state general funds support the operations of the corporation, and AHFC's employees are not employees of the state; however, they do participate in the state's retirement system.

The economic recession that began in 2008 affected the agency's profitability due to a dramatic decrease in earnings on short-term investments which are necessary to support the bond portfolio. Still, AHFC has long been profitable and self-supporting. It was the large dividends AHFC was paying to the State during the recession for capital expenditures such as water and sewer projects, road maintenance, education facilities and senior, teacher and special needs housing, that contributed to the five fiscal years previous to FY2015 showing operating losses.

Following the economic recession was a response from federal lawmakers to cut the budget. Sequestration resulted, and fewer dollars were available to support AHFC's public housing operations. AHFC responded with efficiencies in its delivery of services, namely through a program overhaul of delivery of public housing to its work-able population called Rent Reform. Rent Reform is a proactive effort to limit the amount of time that families able to work may access assistance in public housing. Alaskans with disabilities and seniors benefit by the change because they are less burdened by paperwork requirements (many of whom have fixed-incomes that don't change much from year-to-year). Fewer administrative reviews reduce the workload for staff who are better able to support the work-able population in their transition to market rate rent.

Proactive management of AHFC's mortgage and bond portfolio has led to three consecutive years of increases in both AHFC's operating income and dividend to the state. In calendar year 2015, AHFC's board of directors passed resolutions supporting the agency's FY2017 operating and capital budgets, and support of a dividend paid to the State of Alaska, consistent with the transfer plan, totaling \$25.9 million. This is up from the previous years' dividend to the State in FY2016 that was \$19.1 million, and significantly up from the FY2015 dividend that was \$7.4 million.

AHFC Employees & Locations

AHFC employees directly support housing programs in 16 communities throughout Alaska. Corporate headquarters is located at 4300 Boniface Parkway, and the public housing division has offices at 440 East Benson Boulevard in Anchorage. Field offices support federally funded public housing staff and clients in Bethel, Cordova, Fairbanks, Homer, Juneau, Ketchikan, Kodiak, Nome, Petersburg, Seward, Sitka, Soldotna, Valdez, Wasilla and Wrangell.

Functions

To achieve its mission, AHFC serves five primary functions: offering rental housing for low income Alaskans (public housing units and private rental market housing vouchers); issuing bonds in the financial markets to raise capital; offering home loan products, including mortgages and home renovation loans that are generally provided through banks and credit unions statewide; promoting residential energy efficiency; and offering grants for affordable and special needs housing, and administering federal tax credits. Each function, along with key initiatives is described in detail:

A) Rental Housing/Public Housing & Housing Choice Vouchers

The U.S. Department of Housing and Urban Development (HUD) is the primary funding source for AHFC's public housing programs. Funds received are subject to variation of federal political action. Sequestration, for example, resulted in an 8 percent reduction to operating dollars in 2013.

More than 10,000 Alaskans are served each month through Public Housing and Housing Choice Voucher programs yet there are thousands more families in state who say they need help. A total of 1,612 public housing units are owned by AHFC in 13 communities at 29 sites, typically with on-site management and maintenance staff. Various supportive services and skills trainings are offered on-site for residents to find and keep jobs, promoting stability in housing.

Client eligibility for public housing is based on income. A family's income must not exceed 80 percent of the area median income, defined by HUD, and is based on family size and the community where the housing is located.

The Housing Choice Voucher program provides eligible low-income Alaskans with subsidized housing in the private landlord market. AHFC administers 4,307 Housing Choice Vouchers in 13 communities. Tenants whose income is at or below 50 percent of the area median income, defined by HUD, are eligible based on family size and the community where the housing is located.

Vulnerable populations are supported by the Empowering Choice Housing Program for victims of domestic violence and sexual assault; Tenant Based Rental Assistance for youth aging out of foster care and eligible Alaskans leaving the prison system; Veteran's Affairs Supportive Housing for homeless veterans, and Moving Home for persons and families experiencing disabilities. Each of these programs are supported by state agencies. Key collaborators and partners include the Network on Domestic Violence and Sexual Assault; Council on Domestic Violence on Sexual Assault and related non-profit partners; Department of Corrections, Office of Children's Services, and the Department of Health & Social Services. The Veteran's program is supported by the federal Veteran's Administration.

Thanks to the efforts of the late Senator Ted Stevens, AHFC is one of only 39 public housing agencies across the country that has the distinction of being named a Moving to Work (MTW) agency¹. MTW is a HUD demonstration program that provides the opportunity to test innovative, locally-designed strategies that use federal dollars more efficiently, helps residents find employment and become self-sufficient, and increases housing choices for low-income families. With this designation, HUD funds are provided to AHFC in a block grant. AHFC remains a standout among its peers, noticed by HUD as a "high performer", utilizing 97 percent or greater of vouchers allocated to AHFC annually. This means that AHFC public housing units do not remain vacant for long and vouchers are efficiently distributed to families in need.

¹ Congressional action at the end of 2015 expanded the Moving to Work program to an additional 100 agencies across the nation. This same action extended AHFC's authorization to 2028.

B) Finance, Bonds & Dividend

AHFC buys and holds individual Alaskans' home mortgages by issuing bonds to obtain necessary capital. AHFC, along with other state HFAs, has historically filled a niche by issuing qualified Mortgage Revenue Bonds in the tax-exempt bond market. Alaska is one of only five states designated to issue qualified Veterans bonds. Low-income Alaskans, first-time homebuyers and others benefit from lower interest rates, among other features, on their mortgages than they could get elsewhere.

AHFC earns a spread on mortgages above the cost of the bonds used to finance them. Earnings on short-term investments provide a source of income, which is used to fund agency operations and provides the annual dividend that can be used for public purposes.

Issuing Governmental Purpose Bonds allows AHFC to access capital for state capital projects, state building leases, and agency capital programs at the lowest cost possible.

Bonds and short-term debt of the corporation are not obligations of the state but are backed by the general obligation and revenues of AHFC. AHFC has its own bond ratings (AA+) and indenture. AHFC's mortgage portfolio decreased from a high of \$3.6 billion at the end of 2008 to a low of \$2.3 billion in July 2013. The mortgage portfolio has been steadily increasing since then, and as of December 31, 2015, stood at \$2.8 billion².

Since 1991, annual dividends have been transferred to the State of Alaska. The dividend annually paid is a result of a transfer plan, established in law in 2003. It directs AHFC to transfer 75 percent of its adjusted change in net assets to the State. The transfer plan has not only been beneficial to the State of Alaska but it also reflects well on AHFC and the Alaskans who use the mortgage and bond programs. AHFC is highly regarded by credit rating agencies. AHFC is rated AA+, Aa2 and AA+ from Standard & Poor's, Moody's and Fitch, respectively, and is among the most highly rated of all U.S. HFAs. In total, AHFC has contributed nearly \$2 billion to the State's general fund.

Dividends have been used by the State to support a variety of programs. The governor and legislature have historically used at least a portion to support AHFC's capital budget request but the funds are not restricted, and could be used for any purpose the governor or legislature deems most beneficial.

The following listing of dividends illustrates the challenges associated with the national market in a six-year period, and the success of AHFC's approach to addressing it.

AHFC dividends:

FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
\$23,115,600	\$27,315,600	\$10,620,200	\$7,464,800	\$19,058,700	\$25,924,900

² AHFC's financial statements are available online at <https://www.ahfc.us/pros/investors/financials-history/>

C) Home Loans: Education, Transaction & Servicing

AHFC's loan programs primarily serve rural Alaskans, first-time homebuyers, veterans, and others. Every state has a HFA, and AHFC does not compete with the private sector but is a partner in the success of banks, credit unions and other financial institutions. AHFC offers loans to qualified Alaskans with credit scores of 620 or greater. A complete list of AHFC's home loan products are listed here, including a snapshot of interest rates at a point in time.

Mortgages:

Closing Cost Assistance
Non-Conforming
Refinance
Rural Enhanced Loan
Rural Non-Owner Occupied Loan Borrowers
Streamline Refinance
Taxable First-Time Home Buyer
Taxable
Tax-Exempt First-Time Home Buyer
Veterans Mortgage

Specialty Loans:

Affordable Housing Enhanced Loan
Alaska Energy Efficiency Revolving Loan
Assistance Provider Interest Rate Reduction
Association Loan
Interest Rate Reduction for Low-Income

Loans to Sponsors
Manufactured Home
Second Mortgage for Energy Conservation
Senior Housing Loan
Small Building Material Loan
State Veterans Interest Rate Preference

Energy Efficiency/Remodels:

Energy Efficiency Interest Rate Reduction

RATES VALID FROM 2/4/2016 TO 2/4/2016

LOAN PROGRAMS	30 YEAR	15 YEAR
Closing Cost Assistance Program	4.000	N/A
Rural Owner Occupied ¹	3.750	3.125
Rural Non-Owner Occupied ¹	4.000	3.375
Tax-Exempt First-Time Homebuyer & Veterans Tax-Exempt ²	3.500	3.000
Veterans Mortgage Program ²	3.625	3.125
Taxable	3.875	3.250
Nonconforming I	4.125	3.500
Nonconforming II	3.875	3.250
Taxable First-Time Homebuyer	3.750	3.125

In addition to its single family offerings, AHFC has multi-family loan programs that support AHFC's mission by promoting affordable housing for persons of lower- to moderate-income for the purpose of development, acquisition, rehabilitation and refinance:

- Multi-Family Congregate and Special Needs
- Multi-Family Federally Insured Loan
- Multi-Family Loan Purchase

Perhaps less evident of AHFC's value is its role as a stabilizer in the economy. AHFC's board of directors made conscious decisions not to offer the risky loans that were widely available in the Lower 48 leading up to the collapse of financial markets in 2008. During the Alaska economic collapse in the 1980s, AHFC was able to absorb foreclosed homes and keep them in its portfolio. This allowed for a measured response to changing conditions and prevented a flood of homes into the market that could have otherwise more drastically pushed down home prices. All AHFC loans are serviced in the State of Alaska. That means if a homeowner has a problem with their mortgage, they are able to find help here.

D) Promoting Energy Efficiency

Energy efficiency programs which improve the efficiency and infrastructure of buildings in Alaska are administered by AHFC. Home Energy Rebate and Weatherization are the two with which the public are most familiar but loan programs are also available to Alaskans. More than \$600 million in state capital funds have been appropriated to these efforts since 2008. The programs have benefited more than 44,000 households, and the average energy savings in residential homes exceed 30 percent.

AHFC uses its expertise to provide building science and energy efficiency technical assistance to Alaska's building industry and the public. Its work in this area is focused on residential buildings, and includes education and a research information center, building energy performance modeling, and Alaska's Home Energy Rating System that provides infrastructure for quantitative evaluation. By statute, AHFC is recognized as the authorizing agency for home energy ratings.

Homes financed by AHFC are required by statute to meet certain energy standards. AHFC manages programs to ensure that statutory obligation is met, including the Alaska Building Energy Efficiency Standard (BEES) and responsibility for construction standards.

AHFC has developed tools to meet its statutory obligation, including the Alaska Retrofit Information System (ARIS) database that contains information about a variety of buildings statewide. AHFC uses research and analysis, drawing on expertise from Cold Climate Housing Research Center (CCHRC) in Fairbanks and others, to provide a foundation for energy efficient program development, industry best practices and policy direction.

E) Grants for Affordable and Special Needs Housing

AHFC provides statewide planning, research and analysis of housing conditions, and develops and manages grant programs which respond to affordable housing and supportive service needs.

AHFC administers approximately \$52 million in grants and development assistance annually. Funding comes to AHFC from federal and state funds, corporate earnings and private foundations. About \$13.6 million is used to serve homeless and hard-to-house Alaskans, reducing the social cost of homelessness and incarceration. AHFC competitively awards \$38.5 million in average annual funding to acquire, construct or rehabilitate rental housing for senior and low-income families, as well as rural health, teacher and village public safety professionals. Some \$25 million of this is generated through the federal low-income housing tax credits (LIHTC). These credits generate construction equity through sale to a for-profit investor.

All capital funding awarded by AHFC is secured by long-term use restrictions recorded against the completed development, and in some cases by notes and deeds of trust. Federal law requires AHFC to monitor federal rental development programs for 15-30 years. All projects are monitored and tracked for compliance with terms and conditions of state and federal rules and requirements. AHFC's portfolio of grant and tax credit funded projects includes 5,982 units in 294 developments statewide. The geographic distribution of the portfolio is equivalent to the distribution of the states' population. These projects are not owned by AHFC but AHFC has provided the financial assistance to organizations (tax-exempt organizations, local governments, tribal entities, regional housing authorities) to help them build housing in communities throughout Alaska.

Key Initiatives

Occasionally, the legislature calls upon AHFC to support special projects. As an example, AHFC's Senior Housing Office was created in 1990 to promote a comprehensive response to needs of senior citizens for adequate, accessible, secure and affordable housing. In order to fulfill this legislative mandate, the Senior Housing Office provides research, information, and collaborates with others about senior housing efforts and issues.

Alaska Council on the Homeless was established in 2004. The Council completed its initial assignment in October 2005 by releasing the report "Keeping Alaskans Out of the Cold." The Council was made permanent under the auspices of AHFC in 2007. The Council continues as a public policy forum for recommendations about use of state and federal resources to address homelessness. These efforts are outlined in the States' *10 Year Plan to End Homelessness*³. The plan sets out annual, five- and 10-year goals and objectives, and is updated annually.

AHFC subsidiaries are distinct entities with their own legal existence independent of and separate from AHFC and the State of Alaska. Just as the State is not obligated to meet AHFC's debt requirements, AHFC is not obligated to meet debt service requirements on bonds issued by its subsidiaries that have all been created in statute. Active subsidiaries are:

Alaska Corporation for Affordable Housing (ACAH)

³ https://www.ahfc.us/files/2313/5698/3142/homeless_10_year_plan_2010.pdf

AHFC established this subsidiary corporation after legislation was passed in 2011, allowing ACAH to become a development partner in the acquisition, creation and operation of affordable housing. The subsidiary has allowed AHFC to leverage public housing funding and assets to develop new affordable housing or redevelop existing public housing. One objective is to allow access to additional pools of federal and private funding. Developments in Anchorage, Susitna Square and Ridgeline Terrace, were the first to utilize the subsidiary and opened in October, 2015, and January, 2016 respectively.

Alaska Housing Capital Corporation (AHCC)

On April 18, 2006, the Alaska Legislature passed Senate Bill 232 that appropriated \$300 million from the State of Alaska general fund to the AHCC for the purpose of funding state capital projects, including financing expenses, consistent with the Legislature's intent. All assets are currently invested in the State of Alaska's GeFONSI account. At the end of calendar year 2015, \$43.7 million was the fund balance with a \$22.5 million appropriation; \$21.2 million is available for future appropriations.

Northern Tobacco Securitization Corporation (NTSC)

In 1998, the four largest U.S. cigarette manufacturers ended a litigious effort against them by signing a Master Settlement Agreement (MSA) with Alaska and 45 other states. The MSA established a stream of tobacco settlement payments to be shared among Alaska and the other settling states. In Alaska, the decision was taken by the 2000 Alaska State Legislature and the governor to securitize a portion of the MSA revenue stream so that monies could be made immediately available to fund needed public projects. AHFC was authorized to create a subsidiary, NTSC, to issue bonds that would be secured by a portion of Alaska's revenue payments under the MSA. Proceeds from the sale of the bonds would be used to fund public projects and infrastructure improvements. More than \$373 million of securitized revenues were paid to the state in exchange for the right to receive 80 percent of Alaska's tobacco settlement revenues.

AHFC Management Response to National Recession, Sequestration and Reduced Oil Production & Prices

AHFC's leadership has responded to reduced profitability by directing an internal operational review and business improvement plan with the assistance of the University of Alaska Anchorage. Although AHFC's earnings through investments are dependent on short term rates increasing, AHFC has the ability to influence mortgage originations by marketing its product features.

Every department has participated in action that either reduced cost or grew revenues. Examples initiated by departments include:

- Marketing loans to first-time homebuyers, and Alaskans seeking to renovate their homes and increase loan activity.
- Proactive communication with mortgage partners, and improvement of the selling guide to support lenders and underwriters, to increase the number of AHFC loans.
- Rent Reform in public housing, gradually decreasing rental subsidies and capping financial assistance at five years for work-able families.

- An extra layer of scrutiny placed on new hires; reorganization or reduction in positions when possible.
- Reorganization of grant making process to an online system for complete electronic application from award to payment process, saving staff time and reducing costs to potential grantees.

Results

Efforts from initiatives bulleted above have demonstrated successful outcomes for AHFC.

Among them:

- Growth of the dividend provided to the State of Alaska in a three-year period.
- Active management of AHFC's bond program, resulting in Net Present Value (NPV) savings in FY 2015 and FY 2016 of \$56 million.
- Retained a high credit rating with Standard & Poor's, Moody's and Fitch.
- Congressional reauthorization of AHFC as a Moving to Work agency extended until 2028.
- Percentage of Rent Reform "working" families (as defined by the family having some wages) increased from 44 percent in September 2014 to 59 percent in October 2015.
- Percentage of Rent Reform families working at least 20 hours per week at minimum wage increased from 38 percent in September 2014 to 51 percent in October 2015.
- Percentage of Rent Reform families working at least 40 hours per week at minimum wage increased from 27 percent in September 2014 to 36 percent in October 2015.
- Received national awards for best practices and collaboration with other agencies, including:
 - HUD Real Estate Assessment Center physical inspection scores the highest in 10 years on public housing maintenance.
 - National Council of State Housing Agencies Program of Excellence Awards for:
 - Management Innovation: Operations for retooling AHFC's multi-family development application and rating processes to help get safe and quality rental units built faster for Alaskans at optimal costs.
 - Tenant-Based Assistance for Former Prisoners Program: Identifies and provides low-cost housing for former prison inmates to help them re-enter society and reduce the re-incarceration rate of 66 percent. The program is a cooperative effort between AHFC and the Alaska Department of Corrections. It helped 76 people in fiscal year 2013.
 - Special Needs Housing Grant: Helps Alaskans who are homeless and have special needs by expanding long-term housing options. The program has helped more than 200 Alaskans at risk of homelessness. On this project, AHFC partners with Alaska Mental Health Trust Authority (AMHTA) and Alaska Council on the Homeless.