

HOUSE FINANCE COMMITTEE
May 13, 2002
9:26 A.M.

TAPE HFC 02 - 113, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 9:26 A.M.

MEMBERS PRESENT

Representative Bill Williams, Co-Chair
Representative Eldon Mulder, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Phil Cutler, Staff, Senator Dave Donley; Senator Gene Therriault; Wilda Rodman, Staff, Senator Gene Therriault; Marilyn Wilson, Staff, John Bitney, Legislative Liaison, Alaska Housing Finance Corporation, Department of Revenue

PRESENT VIA TELECONFERENCE

Dan Dickinson, Director, Division of Oil and Gas Audit, Department of Revenue, Anchorage; Steve Van Sant, State Assessor, Department of Community & Economic Development, Anchorage

SUMMARY

SB 4 An Act relating to a mandatory exemption from municipal property taxes for certain residences and to an optional exemption from municipal taxes for residential property; and providing for an effective date.

SB 4 was HEARD and HELD in Committee for further consideration.

SB 181 An Act making the interest rate for the Alaska Housing Finance Corporation's small community housing mortgage loans the same as the interest rate on mortgage loans purchased under the corporation's special mortgage loan purchase program from the proceeds of the most recent applicable issue of taxable bonds before the origination or purchase of the small community housing mortgage loans.

HCS CS SB 181 (FIN) was reported out of Committee with a "do pass" recommendation and with fiscal note #1 by the Department of Revenue.

SB 339 An Act increasing fines for certain criminal offenses.

SB 339 was reported out of Committee with a "do pass" recommendation and with fiscal note #1 by the Department of Law and #2 by the Department of Administration.

#SB181
CS FOR SENATE BILL NO. 181(FIN) am

An Act relating to and increasing the interest rate on that portion of a loan for a single-family house or owner-occupied duplex that exceeds \$200,000 where the loan is for a house or duplex in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks for purposes of the small community housing program of the Alaska Housing Finance Corporation; relating to loans for teacher housing in which each unit that is not vacant is occupied by at least one individual who is employed as a certificated teacher in a public elementary or secondary school in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks, and increasing the interest rate on the loans if this occupancy requirement is not complied with; and providing for an effective date.

PHIL CUTLER, STAFF, SENATOR DAVE DONLEY, stated that the committee substitute would make five changes to the Alaska Housing Finance Corporation (AHFC) rural housing loan program established by AS 18.56.420 and known as the "HALF" program. The changes are:

- Would make the program available for owner occupied

single family or duplex homes but not investment property;

- Would limit the subsidized portion of loans to \$300,000;
- Would allow AHFC to offer blended rate mortgages, a loan amount in excess of the subsidized portion would be at market rates;
- Would add the option of using the program to refinance other loans; and
- Would allow multi family non-owner occupied housing loans to be subsidized only if the tenants are certificated teachers or other education professionals.

Mr. Cutler pointed out that the House Community and Regional Affairs (C&RA) Committee made substantial changes in the measure. The bill as currently written does not fully reflect the Senate Finance Committee's intent. The intent was to make the following changes:

- Limit the use of the subsidized loan program to owner occupied homes; and
- Limit the amount of a subsidized loan to an amount that would accommodate the loan for an "average" home.

Mr. Cutler stated that the Senate sent over a bill that had a \$200,000 dollar cap on the amount of the loan that could be subsidized. The bill had a provision that allowed for the first time, the use of a "blended" loan. If the loan amount exceeded \$200,000 dollars, the amount over \$200,000 could be financed at non-subsidized interest rates. The provision was added at the request of AHFC. The C&RA Committee raised the amount to \$300,000 dollars.

Mr. Cutler added that during the Senate Finance Committee hearings, Senator Hoffman added a section that included the ability to use the subsidized financing program for housing teachers. The bill permitted multi-family, non-owner occupied homes to be financed by the program as long as certificated teachers were in residence. The bill added other "educational professions".

Mr. Culter commented that it is not good public policy to have a State program that rewards rich people in low cost construction areas with a special discriminatory housing loan subsidy that also discourages formation and unification of local governments. That is what AS18.56.420 (the HALF program) does. The program includes a statutory 1% percent below market interest rate for the Housing Assistance Loan Fund (HALF) program. AS 18.56.420 creates the HALF program to provide housing loans to residents in communities of less than 6,500. AS 18.56.420 currently requires that the loans be made at 1% percent below market rates. The loans program

is managed. The 1% percent discount on HALF loans costs the State on average over \$40,000 dollars in lost income over the life of one of the loans. The committee substitute modifies the program by capping the subsidized portion of the loan. Capping the subsidized portion of the loan amount at \$200,000 dollars would make the program more profitable to AHFC, would make more loans available to other borrowers, and would stop the current subsidizing the full cost of higher priced homes.

1. A September 2000 legislative audit concluded that the need for the program has been eliminated through other programs and private entities meeting the needs of homeowners. Testimony before the Senate Finance Committee showed that the program is a vital program in small communities.
2. The committee substitute contains provisions that are intended to enhance teacher recruitment in small communities. Subsidized loans could be used to finance multiple-unit housing as long as certificated teachers' were residents.
3. By limiting the subsidized portion of the loans, AHFC should be earning additional income while offering a subsidized program to qualified borrowers.
4. Providing the low cost loans to borrowers that do not need the subsidy while denying such a subsidy to other less well off Alaskans is unfair discrimination. The committee substitute also provides that any loan amount in excess of \$200,000 dollars can be offered at market rates.
5. The committee substitute provides for financing of certificated teacher occupied multi-family homes. Loans for multi-family homes that do not have certificated teachers as residents are not eligible for the subsidized program.
6. AHFC indicated that they changed the lending regulations so that the program no longer inhibits formation, consolidation and unification of local governments. Those changes would further reduce the disincentive.

Mr. Cutler pointed out that the HALF program was intended to give people a chance at home ownership when they didn't have other options. However, the eligibility requirements need to be tightened up so that those who can afford other programs or are already in low cost construction areas are not eligible. The eligibility requirements included in the committee substitute include limiting the loans to owner occupied single family or owner occupied duplex homes. That

should continue to provide an attractive loan program while providing more income to the State and AHFC. He added that it is not good public policy to subsidize a multi unit housing development to increase the owner's profits. Even though no loans have been made for housing units larger than two units, it is good policy to place the prohibition in statute.

Mr. Cutler reiterated that it is not good public policy to have a State program that rewards rich people in low cost construction areas with a special discriminatory housing loan subsidy that discourages formation and unification of local governments. For that reason, the HALF 1% percent subsidy program should be modified so that high value loans cannot be fully subsidized under the loan program.

Vice-Chair Bunde shared the bill sponsor's concern with the State subsidizing investment property. He referenced Page 3, Section B, multi-use housing occupied by teachers and receiving an investment income. Discussion followed regarding that concern.

Representative Croft asked which Committee had changed the amount from \$200 thousand dollars to \$300 thousand dollars.

Mr. Cutler replied that the House Community and Regional Affairs Committee made that change.

JOHN BITNEY, LEGISLATIVE LIAISON, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, referenced the spreadsheet distributed to members. (Copy on File).

Mr. Bitney pointed out that Alaska Housing and Finance Corporation (AHFC) does support the bill; however, there are a number of issues regarding the subsidy that are of concern. He addressed the term "subsidy". The program is a revolving fund within AHFC, purchased from the State in 1992 for \$190 million dollars that went into the State's general fund. What State laws stipulate is that AHFC makes loans from the program to small communities at an interest rate 1% below the taxable loan rate. The taxable loan rate is the conventional highest loan rate with no absolute restrictions on the borrower. Additionally, there are tax-exempt rates for the first time homebuyer program available. The federal government puts strings on the tax-exempt money that comes with the program. The money limits of the borrower and the purchase price of the home are affected in terms of their income. Because of market conditions in Alaska, it is not possible to buy a home in some rural places within those purchase price limitations on the tax-exempt money. He pointed out that in terms of fairness, 66% of the tax-exempt money goes into south central Alaska because the market there is such that home prices fit within the limits of the program. It is an issue of fairness.

Mr. Bitney continued, the bill began as a repeal of the interest rate differential for that program that had been around for four years. The bill never left the Senate Finance Committee being proposed as that. AHFC, in working with the sponsor, looked at the notion that if working with the upper end homes, the 1% should not apply to the full amount. A year ago, AHFC proposed the concept of a threshold. That proposal was set at \$250 thousand dollars, based on the idea that statewide that was a reasonable average cost for a home.

The program is making money in terms of the dividend that AHFC pays to the State revolving fund. Last year, the program made \$20.3 million dollars in net income. The program is viable for investments and making money. He stressed that it is a key component of AHFC's ability to generate profits that are turned back to the State coffers.

Mr. Bitney recommended when considering making changes to a program as large as this, it is good to approach it as a business aspect. The Legislative audit on the program brought light to valid issues regarding fairness. Since the program originated, there is a heavy expectation for AHFC to be making a profit. If AHFC loses the ability to offer the 1% differential, the impact is that AHFC would lose at least 75% of their business to the other national secondary purchasers when going to a straight conventional rate.

Mr. Bitney stated that Senator Hoffman added the teacher portion to the bill. It replaced the non-owner occupied portion of the program, which was an effort to provide rental property. At that time, it was a small and little used portion of the program. AHFC continues to support that. The House C&RA committee did add language on Page 1, Section 1, providing the ability for the loans to have the option to refinance. That is standard language in any loan program and it was added in.

Mr. Bitney concluded that as the bill moved from the Senate to the House, a \$200 thousand dollar, 1% threshold was in the title of the bill. Changing that to \$300 thousand made a title change. The idea of the threshold is that the 1% discount would only apply to what it is established at. The portion above the threshold will lose that 1%. The loan then would pay a "blended rate".

Co-Chair Mulder summarized what he understood the concern voiced by AHFC was regarding the proposed legislation. He stated that the main focus of the bill was that the "better loans tend to be above the threshold".

Mr. Bitney explained that the current loan portfolio has a very low delinquency rate; it is lower than the loans in the urban areas.

Co-Chair Mulder questioned the loss to the competition.

Mr. Bitney commented that if AHFC did provide a full repeal, and do away with the 1% discount for the small communities, an action bringing the interest rates up to the full rate, would be detrimental. In many of the communities, tax-exempt funds under the First Time Homebuyer Program are not available because they cannot qualify to buy a home. The acquisition limits for new construction are at about \$170 thousand dollars. If that option were lost, everything that AHFC has available to compete for the loans, would be at the full taxable rate. The competition is Fanny Mae. Their taxable rate, on a day-to-day basis will beat Alaska's taxable rate by 3/8% to 1/4%. Those borrowers will not choose AHFC with that differential and AHFC will lose a large amount of business.

Co-Chair Mulder asked if AHFC was more comfortable with the amount currently being proposed.

Mr. Bitney responded that AHFC likes the blended rate threshold.

Co-Chair Mulder asked if the title had been changed in the House C&RA Committee and if it had come to the House at \$200 thousand dollars.

Mr. Bitney replied that was correct.

Vice-Chair Bunde asked why the House CRA Committee increased the amount to \$300 thousand dollars.

Mr. Bitney responded that there was a lot of discussion regarding costs in smaller communities and the impacts to rural Alaska.

Vice-Chair Bunde interjected that the Legislature and AHFC have fiduciary responsibilities. He noted that many of his constituents think that AHFC is subsidizing "wealthy" people.

Vice-Chair Bunde referenced Page 3, Section B, and subsidizing investment income. He pointed out that the multiple units could be making profit. He asked if that problem could be solved.

Mr. Bitney explained that in that section, the teacher housing would be limited to the small communities and limited to the revolving fund. In terms of a subsidy, the only thing that is occurring is that AHFC would be making

loans out of a revolving fund at a reduced rate. The loans to teachers would be limited to certified teachers or education professionals. The effort was not intended to create investment property. The issue is to attempt to get someone to take out the loans to address the housing concerns in those communities. He did not know to what extent there would be a demand for the loan.

The language is limited, and in Subsection B, if someone other than a certified teacher or educational professional moves into the building, they would lose the 1% discount.

Co-Chair Mulder clarified for the record, that if the limit were reduced back to \$200 thousand dollars, it would still be in the borrowers interest to get an AHFC loan rather than going out to get a commercial product as it would be a relatively better deal.

Mr. Bitney agreed that was correct. He pointed out that AHFC's original proposal was \$250 thousand dollars based on running some average costs to the home.

In response to Representative Hudson, Mr. Bitney explained that this would be a new program and that AHFC would monitor teacher compliance. He acknowledged that was an ongoing issue for discussion within AHFC.

Representative Hudson voiced concerns regarding the legality of that.

Representative Lancaster pointed out that there are many owner occupied loans currently on the market and that language is available to address the teacher concern.

Representative Davies commented that this would not necessarily be a "perk" for those teachers; however, it is an important concern for teacher recruitment in the rural areas.

Vice-Chair Bunde foresaw "scamming". He asked how AHFC intended to enforce it so that it would be teacher occupied.

Co-Chair Mulder MOVED to AMEND the title to indicate \$250 thousand dollars. There being NO OBJECTION, it was adopted.

Co-Chair Mulder MOVED to report HCS CS SB 181 (FIN) out of Committee with individual recommendations and with the accompanying fiscal note.

HCS CS SB 181 (FIN) was reported out of Committee with a "do pass" recommendation and with fiscal note #1 by the Department of Revenue.

#SB339
SENATE BILL NO. 339

An Act increasing fines for certain criminal offenses.

MARILYN WILSON, STAFF, SENATOR DAVE DONLEY, noted that Senate Bill 339 would increase maximum criminal fines that may be imposed on an individual or organization for certain criminal offenses. Alaska has not increased the maximum criminal fine amounts on individuals since the revision of the Alaska Criminal Code in 1978, while inflation since 1978 has been 215% percent. Alaska has not increased the maximum criminal fine amount on organizations since 1990 and noted that inflation since 1990 has been 46% percent.

Ms. Wilson continued, in existing law, the maximum allowable criminal fine to an individual who is convicted of an unclassified felony under AS 12.55.035(a) is \$75,000 dollars. SB 339 would increase the maximum criminal fine to \$500,000 dollars.

Ms. Wilson added that the existing maximum allowable criminal fine imposed on an individual for a Class A, B or C felony is \$50,000 dollars. SB 339 separates and imposes a maximum allowable criminal fine for each class individually:

- Class A felony maximum fine is increased to \$250,000;
- Class B felony maximum fine is increased to \$100,000; and
- Class C felony maximum fine is left at \$50,000 dollars.
- For a Class A misdemeanor, the maximum fine is increased to \$10,000; and
- The maximum fine for a Class B misdemeanor is increased to \$2,000.
- A violation maximum fine is increased to \$500.

The current maximum allowable fine imposed on an organization convicted of a felony or a misdemeanor resulting in death (AS 12.55.035(b)) is either the greater of \$500,000, twice the pecuniary gain of a defendant, or pecuniary loss to the victim as a result of that offense. SB 339 increases the maximum fine under AS 12.55.035(b) that may be imposed to the greater of \$1,000,000 or three times the pecuniary gain or loss.

Ms. Wilson pointed out that the legislation applies only to offenses committed on or after its' effective date. The fine amounts are not mandatory; they are the maximum amounts allowed to be imposed. Judges retain their discretion to

set the fines based on the conditions surrounding individual offenses.

She added that the sponsor recognizes that most criminals would not be able to pay the higher increased fines. However, those that can pay should be subject to meaningful fines. Increasing the maximum allowable fines that may be imposed for committing criminal offenses would hopefully help to deter crime. Additionally, the higher fines would help reimburse the State for the costs to the criminal justice system.

Co-Chair Mulder MOVED to report SB 339 out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SB 339 was reported out of Committee with a "do pass" recommendation and with fiscal notes #1 by the Department of Law and #2 by the Department of Administration.

#SB4
CS FOR SENATE BILL NO. 4(RLS) am

An Act relating to optional exemptions from municipal property taxes on residential property and limiting an optional exclusion or exemption to the assessed value of \$10,000 for a residence in a municipality with a total bonded indebtedness that equals or exceeds \$15,000 multiplied by the number of residents in the municipality; and providing for an effective date.

SENATOR GENE THERRIAULT, SPONSOR, explained that HCS CS SB 4 (CRA) would allow municipalities to offer a residential property tax exemption for up to \$10,000 of the assessed value of a residence owned and occupied by a resident who provides fire fighting services and is certified by the Department of Public Safety or provides emergency medical services and is certified under AS 18.08.082. Not more than two exemptions would be granted per residence.

Senator Therriault noted that the earlier versions of SB 4 allowed local governments to lower property taxes for homeowners by increasing the residential property tax exemption from \$10,000 to \$15,000 dollars. Under current law, municipalities may exempt up to \$10,000 dollars of the assessed value of any single residential property. For example, if a house has an assessed value of \$100,000, the municipality would assess taxes on \$90,000. Five municipalities offer this exemption:

- Kenai
- Bristol Bay
- Fairbanks North Star Borough

- North Slope Borough
- Valdez

A \$5,000 dollar increase would have been the first increase adjustment to the property tax exemption since 1974. As is currently the case, it would be optional and up to the discretion of local taxing authorities.

Senator Therriault continued, the provision allowing the House Community & Regional Affairs Committee removed the \$5,000 increase. C&RA removed the tax exemption increase because the Senate version provided a safety valve that precludes any community with bonded indebtedness of more than \$15,000 per capita from offering the additional \$5,000 dollar exemption. Currently, the only community that would be subject to the exclusion is the North Slope Borough, which carried a bond debt in 2000 of more than \$64,000 per capita, while the State average was less than \$2,000 dollar. The special provision regarding the level of bonded indebtedness was implemented to prevent a possible \$1 million dollar fiscal loss to the State if the taxes in the oil rich borough were shifted from residential property to oil and gas property.

Under AS 43.56, the State imposes a 20-mill tax on oil and gas property. If the municipality also has a property tax, the owner of oil and gas property is allowed a credit for any local taxes before paying the State tax. The Senate version of SB 4 addresses the concern that the municipality would offer the residential exemption, and then increase the mill rate to recapture the entire value. While residents would see no net change, the municipality would take in significantly more from oil and gas property at the expense of the State.

DAN DICKINSON, (TESTIFIED VIA TELECONFERENCE), DIRECTOR, DIVISION OF OIL AND GAS AUDIT, DEPARTMENT OF REVENUE, ANCHORAGE, offered to answer questions of the Committee. He referenced the spreadsheet in member's packets.

STEVE VAN SANT, (TESTIFIED VIA TELECONFERENCE), STATE ASSESSOR, DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT, ANCHORAGE, offered to answer questions of the Committee.

Vice-Chair Bunde noted that the spreadsheet indicates that in the worse possible scenario, the bill could cost the State a lot of money.

Mr. Dickinson referenced the fiscal notes. An alternative analysis indicates that the purpose of the exemption to raise the mill-rate is that the homeowner would see no change in the amount that they pay.

Vice-Chair Bunde cautioned regarding potential costs.

Mr. Dickinson reminded members that Vice-Chair Bunde referenced the worse case potential.

Representative Davies referenced the "extreme amount" and asked if that would be possible under the 20-mill limit.

Mr. Dickinson replied that there is no formal 20-mill limit. There is an informal 20-mill limit because the manner in which the property tax works, the oil company would cover the cost. In general, municipalities do not mind if they "bump" up against the 20-mill limit. The statute states that the limit is 30-mills.

Co-Chair Williams indicated that SB 4 would be HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 10:09 A.M.