

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**April 19, 2001**  
**9:10 AM**

**TAPES**

SFC-01 # 78, Side A  
SFC 01 # 78, Side B  
SFC 01 # 79, Side A

**CALL TO ORDER**

Co-Chair Pete Kelly convened the meeting at approximately 9:10 AM.

**PRESENT**

Senator Dave Donley, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Jerry Ward, Vice Chair  
Senator Lyda Green  
Senator Alan Austerman  
Senator Lyman Hoffman  
Senator Donald Olson  
Senator Gary Wilken

**Also Attending:** SENATOR RICK HALFORD; JOHN FAUSKE, Chief Executive Officer and Executive Director, Alaska Housing Finance Corporation, Department of Revenue; WAYNE MUNDE, Executive Director, Bering Straits Regional Housing Authority; JOHN BITNEY, Legislative Liaison, Alaska Housing Finance Corporation, Department of Revenue; GUY BELL, Director, Division of Retirement and Benefits, Department of Administration; KEN BISCHOFF, Director, Division of Administrative Services, Department of Public Safety;

**Attending via Teleconference:** From Homer: TERRY YAGER; DAVID DERRY; JOHN KOSCH; From Kodiak: BOB BODIE; BONNIE AULABAUGH, 9-year Nome resident then 14-year Kodiak resident; From Kwethluk: MAX ANGENAN, Executive Director, Kwethluk Tribal Residence Counsel; From Ketchikan: CHUCK DEARDEN, Energy Rater, and member of the Ketchikan Home Builders Association; From Anchorage: RENEE DEVEREAUX, President, Alaska Mortgage Bankers Association, and Senior Vice President, Residential Mortgage; From Dillingham: DAVE MCCLURE, Executive Director, Bristol Bay Housing Authority, and Former Director, AHFC; BRAD ANAGASAN, Village Public Safety Office Program Manager, Bristol Bay Native Association; From Nome: JOSIE

STILES, Village Public Safety Officer Program Director, Kawerak Native Association; From Fairbanks: JIM KNOPKE, Director, Village Public Safety Officer, Tanana Chiefs Conference, Inc.; From Craig: ROBIN LOWN, Village Public Safety Officer

**SUMMARY INFORMATION**

SB 181-SMALL COMMUNITY HOUSING LOANS

The Committee heard from the sponsor, the Alaska Housing Finance Corporation, industry representatives and members of the public. The bill was held in Committee.

SB 145-REGIONAL & VILLAGE PUB.SAFETY OFFICERS

The Committee heard from the sponsor, the Department of Public Safety and affiliated organizations. A committee substitute was adopted and the bill was held in Committee.

SENATE BILL NO. 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."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Donley spoke to this bill sponsored by the Committee. He explained that this legislation eliminates the statutory one-percent below market interest rates for the Housing Assistance Loan Fund (HALF) and replaces it with a standard market rate for AHFC home loans. He spoke of the existing statute governing the HALF program and mandating the one-percent below market rate in communities of less than 6,500 residents. He noted that the population requirement had been raised a few years prior.

Co-Chair Donley referenced a September 2000 Division of Legislative Budget and Audit (LB&A) report [Copy on file.] saying it concluded that the need for the HALF program has been eliminated through other programs and private entities meeting the needs of homeowners. He stated that if the one-percent subsidy provision were eliminated and if loan activity remained constant then

\$500,000 annual Alaska Housing Finance Corporation (AHFC) earnings could be retained to assist in balancing the state budget.

Co-Chair Donley asserted that the HALF program is not based on need, but only on community size and as a result, provides low cost loans to borrowers who don't need the subsidy while denying a subsidy to other Alaskans who may have the need. He stressed that this is unfair discrimination. He added that this provision is also not based on construction costs in a particular community and is rather an "arbitrary policy call", which he disputed.

Co-Chair Donley noted that the elimination of this subsidy would encourage the formation, consolidation and unification of local governments. He relayed that this provision was determined in the Local Boundary Commission (LBC) 1999 report to the legislature as one of the major inhabitants to formation of local governments.

Co-Chair Donley opined, "This program has been severely abused by some Alaskans." He detailed that in the past few years, 148 loans were made in amounts over \$200,000, 11 loans were for amounts greater than \$300,000 and one loan was over \$400,000. He stressed this is a "pretty massive subsidy" over the life of these loans. He calculated that the \$400,000 loan would cost the state \$100,000 over its life.

Co-Chair Donley qualified that the HALF program was "well intended when it started," due to evidence of higher construction costs in smaller communities. However, he argued that because the provision "wasn't put in place in any kind of smart public policy way, just an arbitrary population limit," it created a disparity that unfairly discriminates against certain Alaskans to the benefit of "very rich Alaskans" who live in rural areas.

Co-Chair Donley again cited the LB&A report as finding that most of the qualifying areas no longer have construction rates higher than the ineligible areas. He relayed the audit recommends the elimination of the one-percent interest subsidy.

Co-Chair Donley stressed that this legislation does not eliminate the HALF program. He stated that there is a demonstrated need for "nonconforming loans" in areas with lower population. He expressed the need to continue this program but without the one-percent subsidy provision.

Co-Chair Donley pointed out other AHFC programs identified by the LB&A audit available to provide lower interest loans to borrowers with a demonstrated need.

Co-Chair Donley spoke to additional concerns, such as found on the Kenai Peninsula. He described the City of Kenai, which does not qualify for the one-percent provision, and residences located outside the municipal boundary as close as across the street, which do qualify. He stated that borrowers with the same income, purchasing identical houses within a block of each other pay different interest rates. He again challenged this is "lousy stupid public policy" that is "indefensible."

Co-Chair Donley emphasized that the intent of the program is not to give the interest rate discount to those people who can afford a \$400,000 home loan. He surmised that providing subsidies for borrowers who truly need it would better use state funds.

Senator Ward shared that residents of Kenai in his district living inside the city limits support this legislation, while those living "on the other side of the street" are opposed. He asked if a needs-based provision was considered.

Co-Chair Donley answered that the LB&A audit suggests there are programs currently available on a needs basis and therefore, this program does not need to be restructured to meet these needs.

Senator Hoffman expressed that there remains a need for the HALF program, although it is possible that it should be modified for reasons described by Co-Chair Donley. He agreed that \$300,000 home loans should not be included in the program. He referred to the LB&A report that lists modifying the existing program as the first recommendation and elimination is as the second. He emphasized that there, "is a strong need" for this one-percent interest rate subsidy provision in areas outside of Anchorage, Fairbanks and Juneau because of higher construction costs, including freight and labor. He told of the necessity for contractors to travel to and temporarily relocate in smaller communities when building homes in these areas. In contrast, he noted, that many construction workers already reside in urban areas and are available to build homes in their communities.

Senator Hoffman shared communications he had received from an employee of the First National Bank of Alaska in Bethel in which he was told that there is a need for this program in the Yukon-Kuskokwim Delta region.

Senator Hoffman stressed that a one-percent interest rate reduction does not completely compensate for the higher construction costs.

Co-Chair Kelly asked Senator Hoffman to work with Co-Chair Donley to develop needs-based criteria to include in the bill.

Senator Austerman read from the LB&A report, "although the HALF program has not been effective in targeting high-cost areas of the state, it can be made effective through a statute change... If the legislature likes to continue the HALF program, we would recommend a more direct approach. For example, the legislature may wish to subsidize only borrowers in communities with building costs exceeding 115 percent." He suggested that there were other ways to address the need issue without eliminating the one-percent subsidy provision.

Senator Olson stressed that if there is abuse of a system, especially one that is subsidized, he agreed that it needed to be modified, although not necessarily eliminated. He referenced the one \$400,000 loan and asked if the sponsor knew what type of project the loan was funding, whether a single dwelling or an apartment complex.

Co-Chair Donley answered that the project was a single-family house. He pointed out that the loan itself was for \$400,000, meaning that the actual cost of the house was higher.

Co-Chair Donley noted in the LB&A report that since the HALF program was created, "those barriers to construction had been adequately addressed by other private or government programs except for higher construction costs in some areas." He continued citing, "Although the higher construction costs have not been fully addressed, most of the loans are not being made in those high construction areas of Alaska." Therefore, he surmised that the majority of the subsidized loans are not issued in the higher cost construction areas.

Senator Hoffman ascertained that part of the reason for the issuance of these loans in rural areas is because the costs are higher and the one-percent interest rate reduction is likely not sufficient to compensate.

TERRY YAGER testified via teleconference from Homer to comment that the one-percent subsidy provision in his area "has been a help on many fronts." He elaborated that the multiple listings service in Homer shows less than six homes annually list for over \$225,000. He spoke of the high cost of living and increased construction costs. He stated that AHFC has been responsive to the needs of the community by offering various programs that give incentives to builders to construct better quality homes. He acquiesced that "no program is perfect" but requested that the HALF program continue in some form.

BOB BODIE testified via teleconference from Kodiak referring to written testimony he had submitted. He disagreed with Co-Chair Donley's charge that the program was abused. Mr. Bodie asserted that it is unfair to charge recipients of abusing a program when all the rules are complied with. He pointed out that the same house located in Kodiak could be purchased for half the price in Anchorage and that successful residents of smaller communities should not be required to move to urban areas in order to purchase a quality home.

Mr. Bodie compared this legislation to that of a child witnessing his brother with a candy bar, and demanding his mother take the candy away rather than sharing. He suggested that the one-percent interest rate reduction could extend to the entire state, stressing that a large number of mortgage payments currently made to out of state lenders could remain in Alaska. He surmised that this would compensate the corporation for the lower interest rate earnings.

Co-Chair Kelly commented that Co-Chair Donley did not infer that there was abuse of the current system.

BONNIE AULABAUGH, 9-year Nome resident then 14-year Kodiak resident, testified via teleconference from Kodiak that she has utilized the HALF program. She stressed that in certain areas of the state, such programs are necessary for residents to afford adequate housing. She acquiesced that while some of the loans have exceeded \$300,000, it sometimes costs over \$200,000 to purchase a home adequate for the needs of a family.

Ms. Aulabaugh understood that this program was established with the intent of addressing the needs of the residents of rural communities not connected to Anchorage or Fairbanks by either the Alaska Railroad or by road. She suggested that the population criteria could be reviewed and adjusted for areas that are connected to urban areas, noting that Kodiak is not connected. She pointed out that the City of Kodiak population precludes residents from qualifying for the one-percent interest rate differential.

Ms. Aulabaugh questioned why some senators thought that every state program for Alaskans must be based on need. She expressed that it would be fairer to have some programs intended to help Alaskans, particularly those willing to live in rural areas.

[Note: The following testifier spoke from an off-net location. The audio feed into the Committee room was poor, although the audio recording is adequate. Committee members were unable to discern much of the testimony.]

MAX ANGENAN, Executive Director, Kwethluk Tribal Residence Counsel, testified via teleconference from Kwethluk to request continuation of the HALF program. He gave a history of the local housing entity established by the local government and the construction of seven new homes and one duplex since its inception. He stated that the one-percent subsidy provision was utilized in the financing of these homes. He told of the higher construction costs in his community and noted that the average loan amount for Kwethluk residences is \$100,000. He assured that the approximately 900 residents of Kwethluk are low income.

DAVID DERRY, real estate appraiser on the Kenai Peninsula, President, AK Chapter of the Appraisal Institute, testified via teleconference from Homer that there are two issues contained in this legislation. The first he said is the interest rate change and the second is the benefit of the AHFC rural housing program in the underwriting criteria. He stressed that while an interest rate difference of one-percent might seem insignificant, it can affect the affordability of housing. He further detailed the many factors contributing to higher construction costs in rural areas including those communities located along the road system. He relayed a conversation with a California based lender regarding an application for a loan on duplex in Anchor Point and the conclusion that the rural setting precludes the property from meeting the lender's underwriting requirements.

Co-Chair Kelly stated for the record that this legislation "doesn't eliminate that program, it would still be available."

CHUCK DEARDEN, Energy Rater, and member of the Ketchikan Home Builders Association, testified via teleconference from Ketchikan on how this interest rate affords young families with children to purchase homes rather than rent. He informed that the economy in Ketchikan is depressed and the homes purchased using this program average from \$135,000 to a maximum of \$200,000. He also noted the dependence on fuel oil for heating as opposed to the availability of less expensive natural gas in Anchorage. He expressed agreement with statements made by previous testifiers.

RENEE DEVEREAUX, President, Alaska Mortgage Bankers Association, and Senior Vice President, Residential Mortgage, testified via teleconference from Anchorage about the importance of AHFC programs in making home ownership possible in rural Alaska. She stated that the one-percent interest rate subsidy compensates for just a small portion of the higher construction costs. She surmised that the situation of similar houses located on either side of city limit boundaries that qualify or do not qualify based on which "side of the street" they are on, was the basis for this legislation. She

related that the Mortgage Bankers Association contends that if this public policy needs to be addressed then the definition of "rural" should be reviewed rather than penalizing all of the rural communities.

DAVE MCCLURE, Executive Director, Bristol Bay Housing Authority, and Former Director, AHFC, testified via teleconference from Dillingham about his awareness of the responsibility of AHFC to transfer the annual dividend payment to the state and the effect of this dividend to the state's revenue. He requested the bill be amended to support a needs based program in high cost areas. He informed that freight delivery costs average ten to 20 percent higher. He pointed out that housing authorities and villages have begun to design and implement loan programs rather than utilize the highly subsidized programs as in the past. He stated that the one-percent subsidy provision is part of a package that includes property tax reduction agreements with local governments, "soft second" mortgages and lower insurance through risk pools.

JOHN KOSCH, Legislative Chair, Kachemak Bay Board of Realtors, testified via teleconference from Homer in favor of retaining the one-percent subsidy provision. He reiterated the arguments made by other witnesses.

JOHN FAUSKE, Chief Executive Officer and Executive Director, Alaska Housing Finance Corporation, Department of Revenue, testified in Juneau about the extensive discussions about this program in the past. He emphasized that the one-percent discount was established to address the documented higher cost of construction in smaller communities. He added that conventional underwriting standards and applications often do not apply in remote communities. As an example, he informed that small communities often lack access to fire insurance, basic infrastructure, police and fire protection as well as the availability of mortgage insurance.

Mr. Fauske commended the auditors who authored the LB&A report citing that some of the mitigating circumstances he listed have been eliminated or improved. He agreed with this assessment, but qualified that the finding "generalizes" the situation.

Mr. Fauske advised that the repeal of the one-percent rate differential would "further result in less affordability for potential borrowers in small communities." He shared AHFC prediction that a 15 percent drop in loan volume would be the "break even point" if the interest rate were increased by one percent. However, he cautioned that the more likely result would be a minimum of 50 percent loan loss. He noted estimates from a banker in Kodiak anticipate an 85 percent reduction.

Mr. Fauske stressed that the issue of fairness must be carefully considered pointing out that the corporation has been adhering to the current provisions, which are in statute. He described the "perfect bell curve" of the portfolio consisting of loans to low-income borrowers, middle-income borrowers earning between \$50,000 and \$99,000 annually and the minimal loans in amounts higher than \$200,000. He emphasized that the question of whether to issue loans to high-income borrowers is not his to answer. Although, he said that those Alaskan borrowers who do qualify for the programs are currently eligible.

Mr. Fauske spoke of the city boundary issue, telling of his meeting with the City of Kenai city council. He disclosed that the corporation shares the frustrations about the definition of "rural".

Co-Chair Donley interrupted to state that the legislation does not contain a definition of "rural" but rather establishes a population level. He asserted that the "continued use of the terminology rural is just erroneous."

Mr. Fauske clarified that he considers areas outside of Fairbanks, Anchorage and Juneau as rural. He noted that the Kenai City Council recommends changing the definition of the program to match that of the US Department of Housing and Urban Development (HUD) that determines rural to be all areas outside of Anchorage, Fairbanks and Juneau.

Mr. Fauske continued by sharing that the program earned \$19 million for the corporation the previous year and that besides the lost loan activity, his concern is that there is not a corresponding increase in net income. He stressed that AHFC could not compete with Fanny Mae, Freddy Mac and other federal programs that might offer loans in these areas because of differentials, loan issuance procedures and service release premiums. As a result, he warned that there would be a significant drop in volume for this program, which in turn would have an "absolute impact to the net income to the corporation." He reminded the Committee of the performance measures established by the legislature for the corporation to "provide affordable, safe housing for Alaskan residents, increase market share and provide a dividend to the state."

Mr. Fauske cited a recent survey conducted in January 2001 showing the average cost of building materials. He listed: Anchorage \$15,783, Fairbanks \$18,000, Juneau \$16,000, Barrow \$36,000, Bethel \$25,000 and Nome \$26,000. He next listed the fair market rent of a two-bedroom residence for each community as Anchorage \$794,

Fairbanks \$738, Juneau \$1,073, Barrow \$1,048, Bethel \$1,074 and Nome \$959. He then gave year 2000 AHFC median sale price figures for a single-family home as Anchorage \$182,800, Fairbanks \$204,000, Juneau \$235,000, Barrow \$226,000, Bethel \$232,000 and Nome \$242,000.

Mr. Fauske shared that he has concerns about the rising housing costs in Anchorage as well as the rest of the state. He stressed that the difference between Anchorage and other communities is that the "vast majority of the tax exempt, bonded first time homebuyer money in this state rolls into Anchorage and urban areas." He gave the reasons as most people living in these areas, but also because of the ability to bond these loans.

Mr. Fauske reiterated his concerns about protecting the affordability and home ownership options as well as the net impact on the corporation. He addressed the emphasis claiming that this legislation does not eliminate the program. He countered, "if you take the one-percent away, we believe in affect from a business standpoint, that if not eliminated, is severely curtailed" since the corporation would be unable to compete against lenders offering some of the loans and the other loans that would not be made.

Senator Lemman referred to the earlier suggestion to expand the interest rate reduction to include all residences in the state. He asked the impact of this to net income and the ability of the corporation to compete with other lenders.

Mr. Fauske responded that this is a revolving loan fund with a static amount of capital.

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Mr. Fauske shared that to expand the interest rate subsidy provision, as suggested, additional funds must be infused into the corporation. He stated the goal of the corporation is to be competitive in the bond market. He explained the involvement of loan to value ratios, private mortgage insurance and other criteria in the creation of a bondable loan program, which would secure investors. He spoke of efforts of the corporation to create a taxable program that could be below market rate. The proposed program, he said would free up funds for this program explaining that current loans in the program are supported by arbitrage.

Mr. Fauske summarized the two options of allocating additional capital and maintaining the revolving loan status, or designing a

program that is bondable, thus giving access to the capital markets.

Senator Ward talked about the homes located close to the Kenai city limits and the different tax structures applied to each. He stated he supports increased development in areas of the state. He wanted to know what AHFC programs would replace the one-percent rate differential if it were eliminated.

Mr. Fauske listed the tax-exempt first time homebuyer program, the largest of the corporation's programs, as a potential replacement. However he predicted difficulties because many borrowers would not qualify based on acquisition limits placed by the federal government and income restrictions. He then informed that the corporation has not issued taxable bonds since 1991, but that if the corporation resumed, some borrowers would qualify for this program. He predicted though that buyers would obtain loans through other competing lenders, such as Fannie Mae. He stressed the difficulties in achieving conformance requirements for conventional loans in rural areas.

Senator Wilken asked for clarification that urban areas benefit from first time homebuyer program while rural areas benefit from the one-time rate differential program. He asked if there was a crossover.

Mr. Fauske responded that both types of loans are issued to borrowers in rural areas. He stated the corporation had found that many homebuyers in the Kenai area were moving outside of the city limits. He ascertained the reasons for this are many and include land size and availability and the different tax structure outside the boundary. He cautioned that until the federal government updates income criteria, the rising construction costs would continue to prevent homebuyers from obtaining loans through the first-time homebuyer programs. This, he stated is in addition to the requirement that qualified borrowers could not have owned a home in the past three years.

Senator Wilken clarified that both programs are available to all Alaskan residents depending upon where in the state they chose to live.

Senator Wilken disclosed that two of his children had participated in the first-time homebuyer program and each was able to purchase a house earlier than they could have otherwise. He asked that if funds were not utilized for the HALF program, if they could be allocated to the first-time homebuyers program.

Mr. Fauske answered that the money in the revolving loan fund is "tied up in loans" and that there is not instantly available cash.

Senator Wilken restated his question of if the HALF program were eliminated could the first-time homebuyer continue longer than the estimated date of February 2001.

Mr. Fauske replied it was possible and explained that the first-time homebuyer loans are bondable and the corporation does sell bonds for these loans. He specified that the corporation is limited on the number of these bonds that could be sold under the Private Activity Bond Cap. He stated the difficulty would be in compiling a blended portfolio that could be marketed in order to secure the bonds.

Senator Wilken commented that it has been established that the HALF program benefits some borrowers who do not need this assistance. He said he wanted those funds to instead be used for first time homebuyers, such as his children, who he asserted do need this assistance in order to purchase a house sooner.

Co-Chair Kelly asked if because one program is capitalized and the other is bonded, there is not an automatic causal relation between the two.

Mr. Fauske affirmed.

Senator Wilken referenced the document "Arbitrage Everything you wanted to know" [copy on file] and asked if the conclusion is that funds used for arbitrage must be placed in specific types of programs, which the US Internal Revenue Service monitors.

Mr. Fauske answered this is essentially true.

Senator Wilken then noted that first time homebuyer tax exemption program does not depend on arbitrage.

Mr. Fauske explained that arbitrage was used in certain programs to buy-down interest rates, and to promote energy efficiency to benefit low-income borrowers. The taxable program, he continued, included arbitrage in order to buy the interest rate down to make the loan more competitive. He noted that Fanny Mae interest rates are always one-eighth to one-quarter of a point below what AHFC could offer.

Senator Wilken asked that if the first-time homebuyers taxable mortgage loans depend on the availability of arbitrage funds if reductions to the HALF program then would increase availability of

funds for the first-time homebuyers program.

Co-Chair Kelly requested Senator Wilken obtain this information from Mr. Fauske at a later time.

Co-Chair Donley commented on a response Mr. Fauske gave to Senator Wilken's question. Co-Chair Donley asserted that other lending institutions such as Native housing programs, regional Native corporations and rural housing corporations also offer loan programs.

WAYNE MUNDE, Executive Director, Bering Straits Regional Housing Authority in Nome testified in Juneau to give details on the authority. He told of the projects undertaken using AHFC funds in the sixteen villages included in the Authority. He remarked that AHFC has been authorized by the legislature to offer the one-percent interest rate differential to qualified communities as an acknowledgement of the higher construction costs in rural areas and as an incentive to provide economic stimulation to these areas. He continued that this in combination with other interest rate reductions makes housing affordable in rural communities.

Mr. Munde requested that the HALF program not be eliminated. He suggested that the needs criteria could instead be reviewed. He stressed that the issue of qualifying residences located across the street from non-qualifying residences has been before the legislature since 1983 when he was the Rural Loan Manager for the former Department of Community and Regional Affairs.

Mr. Munde stated AHFC programs have found increasing use under the new federal law regarding funding for home construction through HUD. He explained that in the past, housing authorities have carried the loan contracts and essentially served as the lender, which he said causes a hardship for the authority. As a result, he said the US Congress has changed the law to encouraging the use of federal funds to "reach in and tap into traditional mortgage markets."

Mr. Munde pointed out that the cost of infrastructure in rural areas adds to the already high construction costs.

Senator Ward wanted to know what other loans besides those provided by AHFC exist that allow for the housing market in the Bristol Bay area.

Mr. Munde answered there are other programs, noting the US Department of Agriculture, Rural Development, provides some funding but that the uses for these loans are limited. He surmised that

developing partnerships between the regional housing authorities and AHFC are key to the success of housing in rural Alaska.

Senator Ward asked if the existence of the HALF program was preventing the acquisition of federal funds.

Mr. Munde answered this was not the case, qualifying that because the housing authorities have been carrying the loans, significant revenue has been unavailable. He stressed the purpose of housing authorities is to "build more houses."

Senator Austerman cited the LB&A report assessing the organization and function of AHFC as follows.

AHFC operates the Housing Assistance Loan Fund program to assist borrowers in communities

...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; in this paragraph "connected by road" does not include a connection by the Alaska marine highway system." (AS 18.56.600(2))

He noted confusion with the inclusion of the Kenai Peninsula in the HALF program. He assumed that more than 1,600 people resided in this area.

JOHN BITNEY, Legislative Liaison, Alaska Housing Finance Corporation, Department of Revenue, testified in Juneau that once outside of the City of Kenai city limits, there is no community so the population cap does not apply. He compared this situation to the City of Kodiak, which does not qualify because the population is over 6,500, but the remainder of the island does qualify.

Co-Chair Kelly asked if the qualifying areas on the Kenai Peninsula are within the Kenai Peninsula Borough.

Mr. Bitney answered that they are.

Co-Chair Kelly asked if the same criterion applies to residences outside the city limits of Fairbanks and North Pole and within the North Star Borough.

Mr. Bitney replied yes.

Co-Chair Kelly surmised these areas are "a more extreme example than Kenai."

Senator Austerman asked if it were true that \$19 million net profit was generated from the HALF program.

Mr. Fauske affirmed this was for the previous year.

Senator Austerman commented that the state receives \$103 million in dividends from AHFC that are then used for other programs.

Co-Chair Donley revisited the witness's response to earlier testimony about expanding the program to offer the one-percent interest rate subsidy to all Alaskans that there is a limited amount of funds available for the program. Co-Chair Donley pointed to Mr. Fauske's argument that more money infused in the HALF program would allow the corporation to be more competitive, thus securing more loans and making a greater profit. Co-Chair Donley asked why this logic was not applied to all AHFC loan programs.

Mr. Fauske responded that the corporation does this by using arbitrage interest rate subsidies in seven of the ten programs offered and in all areas of the state. He listed energy efficiency, loans for low-income, disabled and senior borrowers.

Co-Chair Donley stressed these programs are "criteria based" and the HALF program does not target low-income, disabled or senior citizens or promote energy reduction. He asserted, "There is no public policy goal you are meeting with the HALF program other than an arbitrary assumption, which is inaccurate according to the audits, that all these communities have higher costs for some reason because the vast majority of loans went to people living in areas that didn't have higher housing costs."

Co-Chair Donley suggested that the interest rate reduction could be offered to all areas of Alaska and asked why the corporation does not practice this.

Mr. Fauske detailed what is necessary to offer a below market rate, by being "ingenious" and capture the market offering a bonded rate lower than the competition and attracting borrowers. Another method, he continued is to buy the interest rate down to a level below the market rate. He explained how the corporation could not afford to do this for all loans and stressed that this was learned when the corporation issued taxable loans. He pointed out that the HALF program is a revolving loan fund that utilizes capital appropriated several years prior rather than bond proceeds.

Co-Chair Donley stated there is a statutory formula that calculates the one-percent interest rate discount in the HALF program, which could not be applied to other types of loans.

Mr. Fauske agreed and expounded that bonds are driven by market conditions.

Co-Chair Donley opined that this discussion is necessary because most observers do not understand why the one-percent discount could not be offered statewide.

Mr. Fauske disagreed with Co-Chair Donley on the point that there is a public policy of ensuring affordability of housing in rural communities.

Co-Chair Donley argued that the one-percent interest rate discount is offered arbitrarily without consideration for need.

Mr. Fauske countered that the need is documented by the higher costs in some communities. He stressed this is most apparent in rural Alaska.

Co-Chair Kelly ordered the bill HELD in Committee.

CS FOR SENATE BILL NO. 145(JUD)

"An Act relating to regional and village public safety officers; relating to the expansion of the village public safety officer program to include the provision of probation and parole supervision services; and relating to retirement benefits for village public safety officers."

This was the first hearing for this bill in the Senate Finance Committee.

Senator Ward moved for adoption of CS SB 145, 22-LS0584\X as a working draft.

There was no objection and it was ADOPTED.

BRAD ANAGASAN, Village Public Safety Office Program Manager, Bristol Bay Native Association, testified via teleconference from Dillingham to explain the current difficulties with the Village Public Safety Office (VPSO) program. He expressed "general support" for the provisions of this legislation specifically pay increases in relation to probation and parole supervision services.

Mr. Anagasan informed that the Bristol Bay Native Association participated on the parole and probation pilot project, which he explained develops a relationship giving authority to VPSOs to

perform adult felony probationary responsibilities. He listed the services as direct on-site monitoring and accountability as well as judicial follow-through of probationers. He surmised that one of the "obvious benefits" is that these services are delivered locally within the probationer's respective community thus eliminating potential and infrequent response of the district probation officer "who's handicapped by geographic location or other unknown factors."

Mr. Anagasan then spoke of the reduced turnover rates of VPSO, which he attributed to the increased "compensation that has brought our VPSO salary close to a proportionate wage." He admitted that there is still difficulty in hiring entry-level officers at the beginning salary.

Mr. Anagasan stressed the need for increased retirement benefits, warning that the current five-percent level does not provide long-lasting security for VPSO employees. He predicted that the recent success in retaining officers would be lost without retirement benefit increases. This he said is because many VPSOs would leave for other careers with better retirement benefits.

Mr. Anagasan concluded that the Bristol Bay Native Association endorses the bill, which provides "areas of significant development" and would "establish direct results."

JOSIE STILES, Village Public Safety Officer Program Director, Kawerak Native Association, testified via teleconference from Nome in support of the legislation. She listed the 15 villages in the Bering Straits region that participate in the program and the services provided. She stressed the hardships and risks the BPSO employees encounter in their jobs. She referenced written testimony in support of the increased salary and benefits to BPSO employees. [Copy on file.]

JIM KNOPKE, Director, Village Public Safety Officer, Tanana Chiefs Conference, Inc., testified via teleconference from Fairbanks on behalf of the 42 villages served. He expressed support for the legislation and deferred to the earlier testifiers' comments.

ROBIN LOWN, Village Public Safety Officer Coordinator, Tlingit Haida Central Council, Inc., testified via teleconference from Craig in support of the bill.

GUY BELL, Director, Division of Retirement and Benefits, Department of Administration, testified in Juneau that this legislation would add VPSOs to the Public Employees Retirement System (PERS). He detailed the committee substitute as follows.

Sections 4 and 6 -places VPSOs in PERS unless an employee files a waiver to opt out.

Section 7 - labor provision that indicates how and when a VPSO employee could opt out of PERS. A current VPSO could opt out within 90 days of the effective date of the act and new employees could opt out within 90 days of commencement of employment as a VPSO.

Mr. Bell informed that there are some retired state employees currently working as a VPSO, who would have to forgo collection of their retirement benefits unless they opted out of PERS. He added that in the future PERS retirees could also chose to become VPSOs while collecting retirement benefits if they waive participation in PERS as a VPSO.

Section 8 - relates to PERS and indicates that for rate stability the VPSO employers (Native associations) would be treated as one employer for the purpose of setting employer rates.

Section 9 - relates to current statute allowing the purchase of VPSO service as credit toward PERS, which requires the full actuarial cost to be paid by the employee. This section does not change this provision except to eliminate the maximum amount of five years that could be purchased. Time served for which a waiver has been filed could not be purchased.

Section 10 - includes VPSOs in the definition of a PERS employee.

Section 11 - relates to the definition of peace officer by adding a new category of regional public safety officers to the provision allowing retirement after completion of 20 years of service but specifically excludes VPSOs employed in VPSO programs.

AT EASE 10:40 AM / 10:44 AM

SENATOR RICK HALFORD, sponsor of the bill, testified that this legislation represents the next phase of a project he and Senator Ward had begun with the creation of a pilot project four years prior. He described the four parts of this project as the probation and parole program, pay scale changes as a result of the expansion to the probation and parole program, addition of retirement benefits, and the creation of a "career track" in the VPSO program.

Senator Halford asserted that VPSOs serve Alaska and provide a valuable service. He stated "If there are any group of people that we ask to go unarmed into the lion's den, it's the Village Public Safety Officers."

Senator Halford qualified that this legislation does not provide everything that was requested but emphasized it is a "substantial upgrade" of the statewide VPSO program. He noted the VPSOs "do more for less than virtually anybody else in law enforcement."

Senator Halford gave a brief sectional analysis as follows.

Section 1 - relates to the intent, retirement and benefits pay, the responsibilities, and the career path of VPSOs.

Section 2 - relates to liability and limits liability to for activities with regard to probation and parole.

Co-Chair Kelly asked if the civil liability language is the same as that which applies to other peace officers.

Senator Halford answered it is similar but pointed out that it only applies to duties related to the newly added parole and probation functions. He noted this language was inserted into the bill at the request of the Administration.

Section 3 - defines the existing VPSO program and adds to it the parole and probation provision supervision coordination with the Department of Corrections.

Section 4 - relates to PERS

Section 5 - defines the regional public safety officers

Sections 6 - 11 - address the retirement benefits and clarifies that VPSOs are included in the baseline PERS and not the public safety retirement system

Senator Halford next addressed the fiscal note, stressing the indeterminate benefit of the legislation. He stated that this project allows parolees and probationers to return to their home communities rather than stay in larger cities or regional centers where they have more trouble with alcohol and other factors that contribute to delinquency. He stressed the family support and workable options available in the parolees' and probationers' home communities. He predicted long-term savings realized for the state with a reduction in re-offenders returning to institutions.

Senator Ward referenced an Alaska Native Commission Report signed by former President Bush and former Governor Hickel six years prior. Senator Ward stated that this legislation implements some of the recommendations of that report.

Senator Wilken voiced concerns with the high administration costs of operating the VPSO programs, which he noted has been an on-going issue. He wanted to know if administrative costs are addressed in the bill.

SFC 01 # 79, Side A 10:50 AM

Senator Halford responded the high administrative costs are still a concern. He stressed that there are expenses relating to the contracting of the VPSO service, but "there has always been a discussion as to what the cost was". He indicated that the 20 - 27 percent for administrative costs are the same as the amount allowed for the contractors in federal contracts. He stated that the Administration could address this matter through administrative means. He chose not to address the issue in this legislation.

Senator Hoffman asserted that the VPSO is an excellent program. He said that one difficulty is with a high turnover rate and that this legislation would help retain qualified officers and that delivery of services would improve.

Senator Wilken referred to a one-time federal training grant for FY 02 listed on the fiscal note. He pointed out that the expenditure of these funds is shown on the fiscal note but that the funds are not listed as federal receipts. He asked the amount of that grant and whether it is anticipated the state would assume the training costs after the grant expires.

Senator Halford deferred to Department of Public Safety for details.

KEN BISCHOFF, Director, Division of Administrative Services, Department of Public Safety, addressed the \$1.8 million federal grant for training and equipment for village police officers and VPSOs. He stated this is the funding source for the expenditures listed on the fiscal note. He explained the reason the funds are shown as interagency receipts is because the allocation is a reimbursable services agreement with the FY 02 capital budget appropriation. He noted this is a one-time grant that is available for two years and that it is unknown whether additional federal funding could be secured after the grant expires.

Senator Leman referenced interagency receipts for \$100,000 and asked if these funds are appropriated from the \$1.8 million federal grant.

Mr. Bischoff affirmed and explained the attempt to identify allowable expenses under the grant requirements to lessen the general fund impact of this legislation.

Co-Chair Kelly ordered the bill HELD in Committee to allow time to examine the fiscal note.

AT EASE 10:54 AM / 10:56 AM

**ADJOURNMENT**

Co-Chair Pete Kelly adjourned the meeting at 10:56 AM.