

MINUTES
SENATE FINANCE COMMITTEE
March 08, 2004
9:05 AM

TAPES

SFC-04 # 33, Side A
SFC 04 # 33, Side B

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 9:05 AM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Lyman Hoffman
Senator Donny Olson
Senator Ben Stevens

Also Attending: ZACH WARWICK, Staff to Senator Therriault; KEVIN SWEENEY, Legislative Liaison, Department of Education and Early Development; CHRIS CHRISTENSEN, Deputy Administrative Director, Alaska Court System; DAN FAUSKE, Chief Executive Officer and Director, Alaska Housing Finance Corporation; BRIAN BUTCHER, Legislative Liaison, Alaska Housing Finance Committee, Department of Revenue; JOE DUBLER, Chief Financial Officer, Alaska Housing Finance Corporation, Department of Revenue;

Attending via Teleconference: From an offnet location: DAVID SCHADE, Department of Public Safety; PAULA HARRISION, Director, Human Resources and Labor Relations, Mat-Su School District; PAUL KAPANSKY, Mortgage Operations Director, Alaska Housing Finance Corporation, Department of Revenue; From Ketchikan: JENNIFER TAYLOR;

SUMMARY INFORMATION

SB 179-TEACHER CERTIFICATION : FINGERPRINTS

The Committee heard from the sponsor, the Department of Education and Early Development, the Mat-Su School District and a teacher. A

committee substitute was adopted and the bill reported from Committee.

SB 353-REPEAL DAYCARE REQ FOR FBX COURTHOUSE

The Committee heard from the Alaska Court System and the bill reported from Committee.

SB 279-AHFC WATER & SEWER BONDS

The Committee heard from the Alaska Housing Finance Corporation. An amendment was adopted and the bill was held in Committee.

SB 274-HOUSING PROGRAMS

The Committee heard from the Alaska Housing Finance Corporation. The bill was held in Committee.

#SB179

CS FOR SENATE BILL NO. 179(HES)

"An Act relating to criminal history records and background checks; allowing persons to teach in the public schools for up to five months without a teaching certificate if the person has applied for a certificate and the application has not been acted upon by the Department of Education and Early Development; allowing teacher certification for certain persons based on a criminal history background check without fingerprints; and providing for an effective date."

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

Co-Chair Wilken stated this bill, sponsored by Senator Therriault, "amends the State law to meet the requirements set out by the United States Department of Justice in regards to federal background checks on Alaskans. Senate Bill 179 addresses a concern expressed by teachers whose fingerprints are not processed in a timely manner." He noted a draft of a committee substitute, which contains changes proposed by the Senate Health, Education and Social Services Committee.

Co-Chair Green moved for adoption of CS SB 179, 23-LS0938\U, as a working document.

Co-Chair Wilken objected for an explanation.

ZACH WARWICK, Staff to Senator Therriault, testified that this bill stated as a "tool" to allow teachers an alternative in the current system of criminal history background checks necessary to receive a teaching certificate. However, he reported that a problem arose in that a number of teachers were required to resubmit fingerprint samples every three months due to illegible samples. He explained that the ridges on the fingers of many teachers, and many nurses as well, tend to wear down after many years of handling paper. He stated the affected teachers are usually those who had retired and were now returning to teaching.

Mr. Warwick stated that during FY 03 over 40 teachers are affected by an inability to collect legible fingerprints, are required to resubmit their prints, thus resulting in an "endless process".

Mr. Warwick relayed that he was informed by the Department of Law and the Department of Public Safety that the State was in jeopardy of losing its "ability to perform federal" background checks for professions requiring clearance. He reminded that the State had been granted "broad based authority" to perform background checks on a number of professions, although provisions to conduct fingerprinting were regulatory rather than statutory. In 1997, he stated that the federal government audited the State's practices and directed the language to be contained in statutes.

Mr. Warwick told of a "laundry list" of professions requiring criminal history background checks that was developed by the Senate Health Education and Social Services Committee, upon consultation between the Department of Law and the Department of Public Safety. He noted that changes to the original version of the bill were made conceptually and that meanwhile, Representative Carl Gatto introduced separate legislation to address delays in processing of criminal history background checks for some teachers. He noted these delays were not due to illegible fingerprints or criminal histories, but rather because of a backlog in processing.

Mr. Warwick stated that the Senate Health Education and Social Services Committee proposed extending the application period from three to five months; however, the Division of Legal and Research Services advised that such a change to this bill would violate the single subject rule pertaining to legislation. In addition, he stated that the Department of Education and Early Development had concerns that teachers would submit applications later and time would not be allowed for processing delays.

Mr. Warwick told of efforts to address these concerns. He stated that the committee substitute retains the three month application period and grants the Department of Education and Early Development

the ability to issue a 60-day conditional waiver to accommodate processing delays. He noted these changes comply with the single subject rule.

Co-Chair Wilken removed his objection to the adoption of the committee substitute and the committee substitute was ADOPTED as a working draft.

Co-Chair Green referenced Section 7 on pages 3 and 4 of the committee substitute, which would add a new article and statute: Article 1A. National Criminal History Record Check., and AS 12.62.400. National criminal history record checks for employment, licensing, and other noncriminal justice purposes. She asked about any questions or concerns regarding criminal history background checks for handgun ownership permits.

Mr. Warwick answered that no questions or concerns have been expressed to the sponsor.

Co-Chair Green clarified this committee substitute would not change the current system relating to issuance of permits for the ownership of handguns.

Mr. Warwick understood that the provisions of Section 7 are currently authorized in regulations.

DAVID SCHADE, Department of Public Safety testified via teleconference from an offnet location that he and other Department staff were available to respond to questions.

PAULA HARRISION, Director, Human Resources and Labor Relations, Mat-Su School District testified via teleconference from an offnet location in support of this committee substitute and efforts to "keep this bill alive" until the regulations are made statutory. She offered to share experiences of the school district.

JENNIFER TAYLOR, testified via teleconference from Ketchikan and read her written testimony into the record as follows

I have been certified as an Alaskan teacher since 1981. Every subsequent five years it has been necessary to repeat fingerprint processing (rolling) numerous times at the only locally available agency, the Craig Police Department. The ridges normally required for finger print identification, are not well enough defined on my fingers to suit the Alaska Department of Education and Early Development requirements. Home remedies such as soaking my hands in lotion and corn starch, avoiding all housework, and splitting of firewood,

merely leave my home dirty and my children cold, and still do not promote better-defined prints. I had 8 finger print cards rolled for me, on three occasions, by the Craig Police Department in the past seven months. Chief See took the time to write a department letter to the Dept. of Education explaining that my particular fingerprints would likely consistently be illegible because my ridges were not well enough defined. He was upset with me that his letter was essentially ignored. This is not theoretically a medical condition, nor a disability, though apparently it is permanent and has not been cured by replacing our wood stove with a toy stove.

My concern is that the language in Section 10 allows for the inclusion of public safety and police officers trained and familiar with fingerprint processing (rolling) as experts, in addition to medical doctors for the purposes of determining that cases such as my own, where prints are repeatedly illegible, be included as "a permanent skin condition". Such is especially important considering the lack of access in rural Alaska to other than public safety officers as agencies to obtain prints. My Alaskan teaching certification fees already cost me seven times that of my Washington teaching certificate, and without health insurance, I cannot afford the added expense of a medical office visit to explain my non-medical skin "condition".

Thank you for your consideration

Co-Chair Wilken referenced Section 7 and the list of professions requiring criminal history record checks and asked whether day care providers are included.

Mr. Warwick surmised that subparagraph (5) includes daycare providers. The language reads as follows.

(5) a position involving supervisory or disciplinary power over a minor or dependent adult for which criminal justice information may be released under AS 12.62.160(b)(9);

KEVIN SWEENEY, Legislative Liaison, Department of Education and Early Development, testified to the Department's efforts to change the regulatory provisions to statutory. However, he requested clarification of language in the committee substitute.

Mr. Sweeney referenced AS 14.20.020(j)(1) in Section 10 on page 6, lines 10 and 11, which reads as follows

(1) person cannot submit legible fingerprint cards due to a permanent disability that precludes the person's ability to submit fingerprints; or

Mr. Sweeney asked the sponsor's intent as to how the Department would verify that a teacher's fingerprints could not be read. He noted the Department would be unable to make such verifications "from afar".

Mr. Warwick expressed intent that the official agency conducting fingerprinting would verify whether a person was unable to submit legible fingerprint cards due to a permanent disability.

Mr. Sweeney also clarified that a person with missing fingers or hands could be determined by a physician to be a permanent disability.

Mr. Warwick agreed this would be considered a permanent disability.

Mr. Sweeney next referenced new language inserted to AS 14.20.010 in Section 8 on page 5, lines 1 through 7 of the committee substitute, which reads as follows.

A person who has made application for a certificate under this section may teach for an additional 60 days beyond three months without a certificate if the department grants a written extension. An extension may be granted under this section for not more than 60 days to the person solely due to delay in the department's receipt of criminal justice information under AS 12.62 or a national criminal history record check under AS 12.62.400.

Mr. Sweeney requested clarification that such an extension would be granted only if the delay is the result of a backlog of the criminal history record check process, rather than failure for the teacher to submit fingerprints. He shared that many applications are received "at the last minute" of the current 90 day period and do not provide adequate time for processing. He expressed the Department's concern with avoiding a situation in which a person with a sexual deviant criminal history is dealing with young children.

Co-Chair Green offered motion to report CS SB 179, 23-LS0938\U from Committee with individual recommendations and two new fiscal notes.

AT EASE 9:22 AM / 9:27 AM

There was no objection and CS SB 179 (FIN) REPORTED from Committee

with two zero fiscal notes dated 3/8/04 from the Department of Public Safety, and the Department of Education and Early Development.

#SB353

SENATE BILL NO. 353

"An Act relating to repealing a requirement for a day-care facility in the Fairbanks courthouse; and providing for an effective date."

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

CHRIS CHRISTENSEN, Deputy Administrative Director, Alaska Court System, gave the following testimony.

SB 353 was introduced at the request of the Supreme Court.

Back in 1986, Senator Don Bennett of Fairbanks introduced legislation giving the Supreme Court the authority to lease-purchase a new court facility in Fairbanks. The amount authorized was \$29,900,000. It was understood at the time that construction of a new Fairbanks courthouse would not begin immediately, but would instead follow construction of a new courthouse in Anchorage

During the committee process, language was added that required the project to include a private licensed day-care facility rented to a provider at market rate.

In 1997, following completion of the Anchorage courthouse, the legislature reauthorized the Fairbanks project by appropriating planning and design funds. Construction finally began in 1999, and the Rabinowitz Courthouse opened to the public in August 2001, 15 years after its initial authorization.

During the planning process for the courthouse, several approaches to providing a day-care facility were studied, taking into account the need to ensure the reliable, safe operation of such a facility and state ownership of the building. It was decided to set aside \$350,000 of the bond proceeds for a stand-alone day-care facility in the immediate vicinity of the courthouse. A request for proposals would be issued in which respondents could offer a property within two blocks of the courthouse for the court system to purchase and

renovate. This facility would then be leased to the respondent for the operation of day-care services. Standards for that operation would be set out in the RFP.

Since provision of daycare services is not a normal procurement activity for the court system, research was done with other government agencies (Department of Education and Early Development and Fairbanks North Star Borough) and a consultant was hired to develop an RFP to solicit proposals. The consultant performed extensive research to determine whether properties and providers were available for response, and to determine what criteria should be used to evaluate proposals. A meeting was held with potential providers in mid-2003 to discuss the process and solicit interest. Using input gathered at that meeting, the RFP was finalized and issued.

While several suitable properties were available within two blocks of the courthouse, only one proposal was received. This proposal was non-responsive, in that it offered to provide day-care services in a facility five blocks away. This outcome was undoubtedly influenced by two things. First, there is a private day-care facility already located within two blocks of the courthouse. Second, the consultant we hired surveyed court employees and persons who had served as jurors, and found little or no demand for daycare services.

The courthouse construction project will be completed by July 1. At that time, the \$350,000 set aside for day-care will be all that remains of the bond proceeds. There are two possible methods of dealing with these funds. First, the trust account containing the bond proceeds could be kept open and the court system could periodically reissue an RFP, in an effort to find a suitable property and a day-care provider. However, as long as a private day-care facility is already located in the immediate vicinity of the courthouse and demand is not demonstrated to exist, it is unlikely that the RFP will receive a responsive bid. Moreover, there is no guarantee that a successful bidder would remain in the State facility once it was purchased. If it did not, heating and maintenance money for the empty structure would become the responsibility of the State.

Alternatively, as proposed by SB 353, the legislature could repeal the requirement that a day-care facility be included in the project. This option would allow \$350,000 from the bond proceeds to be transferred from the construction account to the bond redemption account held by the State's trustee. These funds would then be available to offset \$350,000 in general

fund spending from the State's Debt Retirement Fund. Because the private sector is already providing day-care in the immediate vicinity of the courthouse, this option would not disadvantage the public.

Co-Chair Green offered a motion to report SB 353 from Committee with individual recommendations and a new fiscal note.

Without objection SB 353 MOVED from Committee with new fiscal note from the Department of Revenue for \$350,000 dated 3/1/04.

#SB279

CS FOR SENATE BILL NO. 279(STA)

"An Act authorizing and relating to the issuance of bonds by the Alaska Housing Finance Corporation for safe and clean water and hygienic sewage disposal facility capital projects and other capital projects; providing for the repayment of the bonds and bond costs; relating to the dividend paid to the state by the Alaska Housing Finance Corporation; and providing for an effective date."

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

Co-Chair Wilken stated this bill "authorizes Alaska Housing Finance to issue bonds for \$25 million in capital projects. The bond proceeds will fund Village Safe Water projects and other projects. The debt service payment will be deducted from Alaska Housing Finance annual State dividend."

DAN FAUSKE, Chief Executive Officer and Director, Alaska Housing Finance Corporation (AHFC), Department of Revenue, read testimony into the record as follows.

Senate Bill 279 will provide \$25 million for village safe and clean water and hygienic sewage disposal facility projects and other capital projects. The Village Safe Water projects that will be funded with bond proceeds have historically been funded through cash appropriations annual dividend to the State. Estimated debt service on the \$25 million of bonds based on current interest rates is approximately \$3 million per year for ten years. These debt service payments per Sections 2 and 4 of the bill would be deducted from AHFCs annual dividend provided for by AS 18.56.089(c).

Preliminary indications from rating analysis that there will

be no negative impact upon the Corporation's ratings from this proposed issuance. Those indications are given based upon the passage of this bill and SB 274, which replaces the Housing Assistance Loan Fund [HALF], the Rural Revolving Loan Fund with the housing assistance loan program. That bill is scheduled next [and are] hand in hand in order for us to accomplish what we're trying to do.

Co-Chair Wilken noted that an additional \$40 million is necessary to fully fund the proposed FY 05 capital budget. He informed that a proposed amendment would authorize the AHFC to sell \$20 million more in bonds than the current version of the bill to be used to offset the \$40 million deficit to the capital budget.

Senator Hoffman noted the witness' indication that SB 274 would replace the HALF program and asked if the program would operate differently.

Mr. Fauske answered that the programs would continue to function in the same manner and that the proposed change is to the "accounting measure for the Corporation to attempt to fix a liquidity problem that has been generated because that fund technically doesn't revolve anymore." He clarified the legislation would impose changes as to "who would qualify", but assured that "the technicalities of the program will remain absolutely the same."

Co-Chair Wilken announced that because this legislation coincides with changes proposed in SB 274, the Committee should receive an overview of the latter bill.

Co-Chair Wilken ordered SB 279 HELD in Committee until later in the meeting.

#SB274

SENATE BILL NO. 274

"An Act relating to the housing assistance loan fund in the Alaska Housing Finance Corporation; creating the housing assistance loan program; repealing loans for teacher housing and providing for loans for multi-family housing; making conforming amendments; and providing for an effective date."

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

Co-Chair Wilken stated this bill "replaces the Housing Assistance Loan Fund with a new Housing Assistance Loan Program."

Mr. Fauske read testimony explaining this legislation into the record as follows.

Senate Bill 274 will make two changes to the rural loan program. It will replace the Housing Assistance Loan Fund, known as the HALF, with a Housing Assistance Loan Program, and it will replace the Rural Teacher Housing Loan Program with the Rural Multi-Family Loan Program.

Changing the Housing Assistance Loan Fund (the HALF) from a fund to a program is necessary as a result of liquidity concerns of the Corporation. The current revolving nature of the fund limits the fund to being used only to purchase new loans under this program. For fiscal year 2003, over a third of the Corporation's net income was in this fund. With the Corporation paying a dividend of \$103 million to the State, the funds paid to the State have continued to come entirely out of our working capital because of the restriction of the rural loan fund. This has resulted in the liquid assets of the Corporation declining at an accelerated rate.

In addition, the revolving fund hasn't really revolved for several years. The new loans made in the program have exceeded the cash available in the fund causing the Corporation to use its working capital to purchase and hold loans for reimbursement from the fund.

This legislation will allow the program to operate in the same way our other loan programs do. Other than this change, the program will continue to operate in the same way.

Now, the next is the Rural Multi-Family Loan Program. The other change SB 274 will make is to change the Rural Teacher Loan Program to the Rural Multi-Family Loan Program. The passage of SB 181 in 2002 changed our rural multi-family non-owner occupied loan program into the Rural Teacher Loan Program. This change required anyone using the program to fill their duplex, four-plex, or any other multi-family building with at least one teacher in every unit. As a result of this restriction, in the year and a half that the program has existed, there has not been a single loan made. Before this change, the multi-family program made up to two and three percent of our rural business.

This bill will change the program back into a rural multi-family program available to anyone including teachers. It will also allow an owner to occupy one of the unit if they so

chose.

The changes that SB 274 will make will be good not only for the Corporation but for Alaskans, especially in our rural areas and around the state.

Co-Chair Wilken asked the link between SB 279 and SB 274. He understood that SB 279 authorizes the sale of bonds.

Mr. Fauske responded that the changes proposed in SB 274 are necessary to "generate the liquidity to pay for 279." He relayed that the Corporation had proposed to the Murkowski Administration the concept of purchasing \$40 million State assets to generate cash flow for the State. He stated that this did not occur although the need for cash remained and the Corporation suggested selling debt, taking advantage of low interest rates and "running the debt service out of the capital budget." He updated that the decision was made to sell \$20 million in bonds as reflected in the proposed amendment.

Senator Bunde recalled the need for teacher housing was addressed three years prior and expressed concern of repealing a program so recently established. He asked if there was no longer a need for teacher housing.

Mr. Fauske replied these changes would continue to provide opportunities for teacher housing. He explained that the current provisions exclude this program from individuals constructing a multi family housing unit, residing in one unit and renting other units to teachers, if the owner is not a teacher. He said this practice is common in rural communities. He furthered that the Corporation also has to "reassert on an annual basis, the qualifications"; explaining that as teacher tenants moved out of a unit, and non-teachers moved in, the interest rates on the loans must be reassessed and increased. He stated this is a hardship on lending institutions. He predicted the proposed changes to this program would be successful in conjunction with other existing programs in creating housing for teachers.

Senator Bunde recalled the current program requires that a teacher occupy one unit of a multi-family unit complex.

Mr. Fauske corrected that current requirements stipulate that at least one teacher must occupy every unit. This legislation, he explained would eliminate that requirement.

Senator Bunde asked if different interest rates would be available for the proposed changed program as are available for teacher

housing.

Mr. Fauske affirmed and described the separate program that offers interest rates at one percent below the taxable rate on the first \$250,000 of a loan.

Co-Chair Wilken clarified this legislation maintains the \$250,000 limitation instituted in the HALF program three years prior.

Co-Chair Wilken asked about the replacement of regions established in AS 18.56 with "small communities" on page 4, line 26.

BRIAN BUTCHER, Legislative Liaison, Alaska Housing Finance Committee, Department of Revenue, deferred to Mr. Kapansky.

PAUL KAPANSKY, Mortgage Operations Director, Alaska Housing Finance Corporation, Department of Revenue, testified via teleconference from an offnet location that this language unified the definition of the population served by the rural program. He defined small community as having a population of 6,500 or fewer and is not connected by road or rail to Anchorage or Fairbanks.

Co-Chair Wilken asked the regions established in AS 18.56.

Mr. Kapansky was unsure and stated he would provide the information.

Co-Chair Wilken next referenced Section 8 on page 5, line 7, which repeals AS 18.56.420(b) and 15.56.570 and asked what these statutes pertain to and the effect of their repeal.

Mr. Fauske replied that AS 18.56.420(b) relates to the HALF fund and that 15.56.570 relates to the Rural Teacher Housing Program.

Mr. Kapansky affirmed.

Co-Chair Wilken understood that AS 18.56.420 relates to how the Legislature uses the funds of the HALF program to administer the program.

JOE DUBLER, Chief Financial Officer, Alaska Housing Finance Corporation, Department of Revenue, explained that AS 18.56.420(b) allowed the Legislature to appropriate funds for the hiring of personnel to administer the revolving fund. He noted that because this legislation would change the fund into "just another mortgage program" within the Corporation, it would be subject to the separate statutes governing the entire corporation in which the Legislature appropriates funds for operation.

Co-Chair Wilken asked for further explanation of the regional allocation referenced in AS 15.56.570.

Mr. Kapansky responded that in the past, the Corporation allocated funds from the revolving loan fund according to regions. He surmised this occurred because the Corporation had limited resources. However, he stated that since the Corporation merged with the rural loan program in 1992, additional resources were available for the program and the regional allocations were no longer necessary.

Co-Chair Wilken clarified that the language change to "small communities" in Section 6 of the bill allows for the repeal of AS 15.56.570.

Mr. Kapansky affirmed.

Senator B. Stevens referenced Sec. 18.56.580(b)(2) in Section 7 on page 5, lines 5 and 6, which reads as follows.

(2) "multi-family housing" means a multi-family residence containing two or more dwelling units that may be nonowner-occupied or owner-occupied.

Senator B. Stevens asked about programs available for nonowner-occupied housing and the definition of nonowner-occupied.

Mr. Fauske deferred to Mr. Kapansky.

Mr. Kapansky told of the history of the program, prior to passage of SB 181, in which owners could not occupy units of multi-family housing. Currently, he was unaware of any program of the Corporation that allows nonowner occupancy. He defined "nonowner occupied" as housing at which the borrower does not live and all the units are leased or rented.

Senator B. Stevens asked the criteria required of the borrower of nonowner occupied housing, whether the borrower must be a Native corporation, a school district or similar entity. He surmised this legislation would extend the program to anyone, and exemplified that he could borrow money and build rental units in a community of less than 6,500. He asked how broad this provision would be.

Mr. Kapansky defined those eligible, as "anyone or any entity that can enter into a legal contract and qualify otherwise, can be a borrower under the rural loan program."

Co-Chair Wilken furthered that those eligible could "enjoy" discounted interest rate for the first \$250,000 of the loan.

Mr. Kapansky affirmed.

Mr. Fauske noted that legislation adopted the previous session, SB 25, extended a no down payment requirement to Rural Education Attendance Areas (REAA) and school districts.

Senator B. Stevens understood, but questioned the extension of the proposed program to any applicants as broadening the intent and would allow any party to become property owners of nonowner-occupied housing in small communities.

Co-Chair Wilken clarified Senator B. Stevens's concern with the inclusion of a nonowner-occupied provision in this legislation.

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Senator B. Stevens remarked that under the proposed provisions he could build units in a village, such as St. Paul and become the landlord utilizing an AHFC loan. He wanted this understood in the discussion on this bill.

Mr. Butcher explained that prior to passage of SB 181 in 2002, the program was specifically a rural nonowner-occupied loan program.

Senator Hoffman noted that the lower interest rate could only be garnered for the first \$250,000 of the loan, which could be translated into two units of a six-unit housing facility.

Mr. Fauske affirmed.

Senator Hoffman commented that although this proposal might seem to be extending the program significantly, only a limited number of borrowers could take advantage of it. He spoke of housing difficulties and the benefits of encouraging investment in rural communities.

Mr. Dubler clarified that AHFC has nonowner-occupied loan programs for housing located in urban areas and that this program would only apply to rural areas. He emphasized this program is the only funding source that has typically been available for rural multi-family housing, and since enactment of SB 181 no loans have been issued.

Senator B. Stevens wanted to clarify this proposal would not only allow for construction, but also would provide loans for the purchase or refinance of existing multi-family housing. He stressed this would provide State funding for nonowner-occupied ventures. He did not oppose this, provided it was fully understood.

Senator Bunde asked if currently these loans are limited to nonowner-occupied housing, unless the borrower is a teacher.

Mr. Butcher explained that both owner-occupied and nonowner-occupied are allowed.

Senator Bunde asked if the intent is to amend the program to allow owner occupancy.

Mr. Butcher replied that the original program applied to nonowner-occupied housing; the changes implemented in 2002 limited occupancy to teachers, whether owner-occupied or nonowner-occupied; and the proposed change would retain the owner and nonowner-occupied provision although eliminate the teacher occupancy requirement.

Senator Bunde ascertained this change could result in increased participation in the program.

Mr. Fauske affirmed.

Co-Chair Wilken added that the \$250,000 limit was imposed in conjunction with the changes made in 2002.

Senator Olson asked if the reason no applications were received for the existing program was because only a limited number of rural residents had adequate collateral on loans for multifamily housing.

Mr. Fauske replied that no loans were made under this program, in part because some who would have participated were excluded because they were not a teacher. He stated the program placed restrictions on lenders for interest rate compliance and therefore lenders did not promote the program.

Senator Olson asked if the proposed changes would therefore encourage investors to construct multi-family residences in rural Alaska.

Mr. Fauske answered it could.

Senator Bunde expressed concern with removing the teacher occupied requirement, since the original legislation was intended to "apply

some gentle pressure" to borrowers that to participate, they must assist in meeting a need. He could understand that it would be burdensome to require every unit be teacher occupied and suggested a requirement that at least one unit must be occupied by a teacher.

Co-Chair Wilken asked if the current provisions stipulate that a teacher must occupy one unit.

Mr. Fauske corrected that at least one teacher must occupy every unit.

Mr. Fauske predicted that the goal of providing teacher housing would be reached. He noted the current program offering loans with no down payment to school districts and REAAs is expanding. He also told of \$4.1 million for the teacher housing loan program included in the proposed FY 05 capital budget. He further described efforts of the Corporations underwriters to ensure the success of these programs.

Mr. Fauske pointed out the difficulties in operating a multi-family housing facility in which every unit must be occupied by at least one teacher. He informed that many teachers remain in the rural community only nine months of the year and the owner must either find temporary occupants or absorb the lost rental revenue.

Co-Chair Wilken recalled discussion prompted by a Division of Legislative Audit report of three to four years ago about abuses in the HALF system. He noted the problems were repaired and that now those repairs are being adjusted. He asked whether the proposed changes could result in a return to the situation in which the abused first existed.

Mr. Fauske assured the proposed changes would not. He opined that some of the identified abuses were the result of misunderstandings. He exemplified a loan to a doctor in Dillingham. He stated that the limit of the reduced interest rates to the first \$250,000 of a loan would address the Committee's concern.

Senator Olson surmised that the number of rural residents able to participate would become fewer due to less funding to rural communities, such as revenue sharing and longevity bonus payments, as well as the State's fiscal problems. He expressed that this "pessimistic financial attitude" has affected businesses and asked whether AHFC shared this observation.

Mr. Fauske replied that the combination of housing programs to assist teachers and nurses have "created an opportunity for more optimism instead of pessimism." He explained that education funding

is allocated to rural communities, some of which is used to pay salaries and miscellaneous expenses. He stated that if AHFC could leverage some of those funds to ensure housing is developed, the overall economy would benefit. He admitted that funding reductions in other areas would have impacts, although these efforts would be helpful. He also noted the changes in this legislation would promote investment from funding sources other than education funding.

Senator Olson commented that as a businessman from rural Alaska, he has "reined in" his optimism because of the "dismal" forecast.

Co-Chair Wilken opined that money is always available for "good mortgages" based on sound lending principles.

Co-Chair Wilken ordered the bill HELD in Committee.

#SB279

CS FOR SENATE BILL NO. 279(STA)

"An Act authorizing and relating to the issuance of bonds by the Alaska Housing Finance Corporation for safe and clean water and hygienic sewage disposal facility capital projects and other capital projects; providing for the repayment of the bonds and bond costs; relating to the dividend paid to the state by the Alaska Housing Finance Corporation; and providing for an effective date."

The Committee heard this bill earlier in this meeting.

Mr. Fauske reread a portion of his earlier statement.

Co-Chair Wilken noted a list of proposed projects attached to the sponsor statement [copy on file].

Amendment #1: This amendment would increase the amount of bonds that would be issued to finance capital projects other than village safe water projects from \$5,181,700 to \$25,181,700.

Co-Chair Green moved for adoption.

Co-Chair Wilken objected for an explanation.

Mr. Fauske explained this amendment would increase the amount of bond proceeds available for capital projects from \$25 million to \$45 million. He relayed that the decision was made to not pursue the purchase of \$40 million in State-owned buildings and the

Corporation was asked if more than \$25 million in bond proceeds could be provided.

Mr. Fauske stated that after consultation with the bond rating agencies, the Corporation determined the proposed amount could be achieved without resulting in a negative affect on the Corporation's bond rating. He noted that Standard and Poors and Moody approved the proposal immediately, although Fitch deliberated for a week before approving the proposed amount with the stipulation that it be no higher. He attributed the approvals with the "faith" the rating agencies have with AHFC and the Legislature because "agreements in the past have been honored and the debts have been paid."

Mr. Fauske furthered that the Corporation is also "comfortable" with the proposed amount.

Co-Chair Wilken reiterated that the proposed FY 05 capital budget requires an additional \$40 million to fully implement and this proposal would provide \$20 of that amount.

Senator Hoffman clarified that funding for the FY 05 capital budget would be \$20 million less than the amount needed for the Governor's proposed expenditures.

Co-Chair Wilken affirmed.

There was no objection and the amendment was ADOPTED.

Senator Bunde asked if AHFC was aware of the aforementioned Division of Legislative Audit report and questions of the Legislature regarding efficient use of bond proceeds and the role of AHFC in determining how those proceeds are spent.

Co-Chair Wilken directed AHFC to become familiar with the audit. He commented that mismanagement of funds had occurred and that the Corporation would be pressured to better manage monies.

Co-Chair Wilken asked whether an updated fiscal note would be required to reflect the adoption of the amendment.

Mr. Butcher affirmed and listed amount of fiscal note would be approximately \$6 million.

Co-Chair Wilken indicated the bills would be held to await receipt of updated fiscal notes.

Senator Bunde opined that if the AHFC was unable to manage money

satisfactory, the Legislature should limit the amount of funds it manages.

Co-Chair Wilken ordered the bill HELD in Committee.

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Senator Dyson spoke to budget subcommittee discussion in which the need to modify department's missions and measures statutes has been identified. He noted that although Department staff may agree with the subcommittees as to specific changes, the departments are unable to implement changes without approval from the Office of Management and Budget. He did not anticipate difficulties in receiving this approval, but suggested the Committee consider legislation to implement amended missions and measures statements in the event the Murkowski Administration does not readily accept the proposed changes.

ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 10:19 AM