

SENATE FINANCE COMMITTEE
March 17, 2016
1:42 p.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 1:42 p.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

PRESENT VIA TELECONFERENCE

Craig Campbell, President and Chief Executive Officer, Alaska Aerospace Corporation, Department of Military and Veterans Affairs; Bryan Butcher, Chief Executive Officer and Executive Director, Alaska Housing Finance Corporation, Department Of Revenue.

SUMMARY

SB 124 EXTEND SUNSET ON AK COMMISSION ON AGING

SB 124 was SCHEDULED but not HEARD.

ALASKA ENTERPRISE AGENCY ANALYSIS:

ALASKA HOUSING FINANCE CORPORATION
ALASKA AEROSPACE CORPORATION

^ALASKA ENTERPRISE AGENCY ANALYSIS: ALASKA AEROSPACE CORPORATION

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Co-Chair MacKinnon referred to a list of 12 questions that the committee had sent to the Alaska Aerospace Corporation,

CRAIG CAMPBELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ALASKA AEROSPACE CORPORATION, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (via teleconference), read from his written testimony, provided to the committee in a document "Alaska Aerospace Corporation; Senate Finance Committee Testimony," (copy on file):

This is a good opportunity to put facts on the record concerning Alaska aerospace to counter much of the misinformation that has been presented by detractors during public testimony and even from some legislators during committee and floor sessions.

Alaska Aerospace Corporation is currently a state-owned corporation established by the legislature in state statute. AAC is the only government or private sector company in the state that provides the services and capabilities for space launch and aerospace development. The University of Alaska also has a very active aviation education curriculum at the University of Alaska- Anchorage, and the University of Alaska - Fairbanks operates the Poker Flat launch facility and a satellite downlink operation under the Geophysical Institute. The Poker Flat launch site is primarily funded by NASA for sub-orbital studies of the aurora.

AAC is exempt from many state department regulations, requirements, and the state procurement code, but remain under the state Department of Military and Veterans Affairs for administrative oversight only. As part of our existence, the legislature provided, in statute, that AAC has bonding authority. However, we have never utilized that capability. Therefore, we have no outstanding debt or current liabilities.

But AAC is not the same company that came before you in February 2015. Much has happened to move the company away from state dependency into a true commercial marketplace. At a time when oil and gas prices are at damagingly low values for our state, at a time when there is tremendous pressure on our state budget to support the essential services Alaskans

expect from government, I am pleased to be here to give you a positive story about our/your aerospace company that demonstrates our success at no longer being dependent on state funding, while creating a resurgence in aerospace business for our company.

But first I would like to set the stage for my presentation. Historically, Alaska Aerospace Corporation has been solely viewed as the Kodiak Launch Complex. Measurement of our success was based on the number of launches from Kodiak and the revenues generated by those launches. While that model proved successful for many years, the past five years have shown that Alaska Aerospace can no longer be a successful company by rocket launches from Kodiak alone. Let me explain.

From 1996 until 2011, AAC did not require any state funding for Operations and Sustainment. The company operated within the revenues received from launches at Kodiak. During that period, AAC successfully launched 16 rockets, all for the Federal government. However, as the Federal government changed focus on missions, the lucrative government contracts that AAC had relied upon quickly came to an end. With no other business units within the company, the future financial position of AAC quickly became a serious issue. In 2011, my predecessor requested \$4.0 million in the governor's budget which the Legislature approved to support the daily Operations and Sustainment of AAC until such time as we could secure more launches. In SY 2012, AAC again requested and received an additional \$4.0 million in General Funds for Operations and Sustainment. This was followed in SY 2013 by a request for \$8.0 million, which was also approved.

In October 2012, I was appointed as the new President and Chief Executive Officer for AAC. During my subsequent presentations before both the House and Senate Finance Committees, I made the pledged that AAC would become a profitable company, that we would diversify, and that we would implement a long term budget plan to reduce state general funds for Operations and Sustainment by \$2.0 million per year. The SY 2014 budget contained the final \$8.0 million request, with our SY 2015 budget request reduced to

\$6.0 million and our SY 2016 budget request targeted for \$4.0 million.

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Mr. Campbell continued reading his written testimony:

In addition to the Operations and Sustainment funds, AAC also requested \$25.0 million in SY 2013 to pursue medium-lift expansion capabilities at Kodiak. The Legislature passed this capital fund appropriation, with a specific expenditure plan which stated that AAC could spend an initial \$3.0 million for engineering, environment, permitting, and associated preparatory efforts. Once a contract was secured, AAC could expend an additional \$10.0 million on site development work to support the expansion program. However, the remaining \$12.0 million could not be spent until all additional financing for full construction of the medium-lift facilities, known as Launch Pad 3, had been secured.

In 2014, AAC initiated the engineering and environment processes. Later that year, AAC awarded to Lockheed Martin the right to proceed with medium-lift development for the Athena IIS, provided they secured a launch customer for the vehicle.

Following the election of Governor Walker and in light of the State's fiscal situation, Governor Walker issued Administrative Order 271 in December 2014 halting discretionary spending on mega projects. AAC immediately ceased all work on the Kodiak Launch Complex medium lift project.

Unfortunately, Lockheed Martin was not able to close the business case on the Athena IIS, so no work has been done since that date on developing medium lift at the Pacific Spaceport Complex - Alaska, nor have there been any costs charged to this project since that time. The Medium-Lift Environmental Assessment is in the final stage of approval with the Federal Aviation Administration and we expect the final report within the next few weeks. There are no further costs associated with the EA. Currently, \$2,315,249 of the original \$3.0 Million remains in the AAC account.

In January 2015, AAC offered \$22.0 million of the medium-lift appropriation back to the state for re-appropriation to other state priorities. That was accomplished last year and that money no longer resides in any AAC account.

Concurrent with this, Governor Walker requested that AAC immediately reduce all state general funding requests for Operations and Sustainment to zero in the SY 2016 budget. We agreed, effectively terminating any future state funding to AAC with last year's budget.

You may recall that last year when I appeared before you, there were questions about the Administrations action to zero us out in the budget. You may also recall that I supported Governor Walker's action. I speak here today still in favor of that action. There are no state funds included in the SY 2017 state budget for AAC.

Finally, in response to questions you also may recall that I stated AAC would be exploring the possibility to privatize the company so that Alaska could retain a viable aerospace industry, without requirements for state funds.

So here we are today, no money requested in the budget and one year further down the road. But we have not been idle.

In January 2015 AAC presented the Administration a point paper recommending that privatization be considered as an alternative to shutting the corporation down.

In February 2015, the AAC Board of Directors authorized the company to proceed with evaluating alternative organizational structures and business models for AAC.

In March 2015, AAC hired Nossman, LLP to conduct the study. They evaluated nine different scenarios for potential transformation of the company away from state government.

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Mr. Campbell continued reading his written testimony:

During the May 2015 Board meeting Nossman presented these options to the Board and the Board directed that six scenarios be further developed for evaluation at the November meeting.

Governor Walker was briefed on the Board's direction in August 2015 by me and Dr. Bob McCoy, AAC Board Chair. DMVA Deputy Commissioner Bob Doehl also attended the meeting. No action was requested of Governor Walker, AAC simply wanted to make sure the Administration was kept abreast of the Boards progress.

During the November 2015 meeting, the Board unanimously passed Resolution #15-06; a resolution recommending to the Governor that he pursue the transfer of the Alaska Aerospace Corporation to a Public-Private Partnership. So despite press releases by some elected officials that claimed "The Alaska Aerospace Corporation needs to take the Alaska Legislature's message to privatize seriously and not draw out the process while using state money to stay afloat," the AAC Board of Directors has recommended that we be transitioned to a Public-Private Partnership.

Furthermore, AAC has not received any state funds since the FY 2015 budget, so our operations today are wholly paid by customer receipts and cash reserves. It is our intention to not use state funding in the future, but rather to privatize and be part of our states economic solution, bringing money into the state, employing Alaskans, and diversifying our economy away from being so heavily dependent on natural resource extraction and sales.

So now let me highlight the economic value of AAC to our state since becoming operational in 1996. I am sure you hear, like I do, the repeated pounding of the drum that "Alaska Aerospace has NEVER made any money in its history." That is absolutely false. As I already mentioned, for the first fifteen years Alaska Aerospace launched sixteen rockets and never received a single state dollar for Operations and Sustainment. Facts are facts! During that period, AAC financially

contributed to the state through the contracts we held with the Federal government.

But let me further present the fact that AAC has been a positive economic driver for Alaska. Since being established the State of Alaska has invested \$58.7 million in AAC:

- \$30.2 million in Operations and Sustainment funding, as previously explained;
- \$22.6 million Capital Funds for infrastructure development and deferred maintenance at the Pacific Spaceport Complex - Alaska (formerly the Kodiak Launch Complex); and
- \$5.9 million through the University of Alaska Science and Technology Fund.
- In total, AAC maintains a physical asset base valued at approximately \$57.0 million, following reconstruction of the damaged launch facilities, which will be approximately \$35.0 million.

In return, AAC has generated nearly \$300.0 million in "new money," non-state revenues, accounting for 84% of total revenues for the company.

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Mr. Campbell continued reading his written testimony:

In further analysis, of the \$58.7 million in State funds, only 30.2 million was for Operations and Sustainment. The rest went directly into capital projects or education programs that facilitated our ability to attract new business. Therefore, the State received around nine dollars in "new money" for every State dollar invested for Operations and Sustainment.

Now, am I happy that the State had to provide \$30.2 million to AAC? Absolutely not! That is why I agreed with Governor Walker to eliminate state funding last year, to return the \$22.0 million CIP funding to the State, and to support establishment of a Public-Private Partnership company. By being a Public-Private Partnership there is virtually no risk that the State would have to provide further Operations and Sustainment funding, and it presents business model for the new company to potentially pay the State back

the \$30.2 million over time. If AAC is shut-down, that \$30.2 million investment is lost forever.

But let me bring this closer to home. Our last launch in August 2014 generated significant economic benefit to the community of Kodiak. Over \$1.3 million in hotels/B&B, and lodge room rentals; approximately \$835,000 on food, beverage, and incidentals; \$250,000 on vehicle rentals; and another \$250,000 for logistics support was spent in the community during the launch campaign. This resulted in a direct positive economic impact to Kodiak of \$2.7 Million in "new money" to the community. This is in addition to the \$2.8 Million contract AAC had with Miltec to conduct the launch.

When all direct investments are accounted for, the 2014 launch injected over \$5.5 Million of "new money" into Alaska. Using a standard economic multiplier, the direct, indirect, and induced positive economic impact was at least \$8.0 Million for that launch, with the majority being spent in Kodiak and Sand Point.

Returning to the macro evaluation of economic benefit derived to the State by AAC, when a standard economic multiplier is applied to the total AAC budget of \$356.7 Million, AAC has provided over one half a Billion dollars in economic benefit to the state. I think that is a positive message that is not understood by nearly enough people. But these are the facts.

Before I close I want to return to one more important point: For too long AAC has been synonymous with Kodiak. Our past behavior has validated that this assumption was correct; however, the past two years AAC has dramatically changed and this is no longer an accurate view of AAC. We are aggressively diversifying the company so that we are no longer solely dependent on launches from PSCA and have the ability to adjust resources as markets change. Let me provide some examples:

- We have a contract with Plant Labs as distributor of the Rapid Eye satellite constellation imaging data of Alaska. No matter who buys Alaska imaging data, AAC receives a commission.
- AAC is also pursuing installation and operation of data downlink earth stations in both northern Alaska

and along the equator to allow us to down link data and do imaging processing as part of our vertical integration for imagine services.

- We have initiated work on Unmanned Aircraft Systems (UAS). We are part of the University of Alaska's Pan Pacific FAA UAS Test Range and have received FAA authority to apply for UAS Certificate of Authority (COA) for commercial UAS operations state-wide. We are the only other agency in the state, besides the University, with this FAA approval. In fact, we have a partnership agreement with two commercial companies that are planning operations in Alaska later this year.

- We have a contract with Rocket Lab USA to provide Range Support and Launch Director services for their first four Electron rocket launches from their New Zealand facility, scheduled for 2016 and 2017. This will ultimately lead to launches from Alaska projected for late 2017 or early 2018.

- AAC received \$2.6 million in Federal funds in the FY 2015 budget for capital improvements at PSCA to support future Federal operations from Alaska. AAC also has a request in for \$5.0 million of Federal funds within the FY 2017 budget.

- The AAC Board of Directors passed a resolution in February 2016 authorizing AAC to proceed with development of a Joint Venture for marketing our Range Safety and Telemetry System (RSTS) worldwide.

- The AAC board also passed a resolution in February authorizing AAC to proceed with establishing a wholly owned subsidiary to provide launch services world-wide. These launch services are the services currently provided at PSCA, but our intent is to expand the business unit to obtain work at other launch facilities, thereby generating revenues when the team is not needed in Alaska.

- AAC is actively pursuing development of an equatorial launch site to compliment the current polar capabilities of PSCA. It is the intent of the Board that AAC have the ability to serve customers equatorial and polar requirements. This would significantly increase potential revenues, as the majority of launches require equatorial orbits.

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Mr. Campbell continued to read from his written testimony:

- And finally AAC is in the final negotiations with a customer that will use PSCA, with the first launch in 2017. This will be a multi-year, multi-launch program that has the potential of being a prime customer for the next five to ten years. While I can't provide any further information than this due to the sensitive nature of contract negotiations, I can say that we expect a public announcement will be forthcoming from the customer in April.

What else can I say? I guess I will close by telling you that:

- Four years ago AAC had over forty state employees. Today we have only sixteen.
- Over the past four years I have not provided any Cost of Living Allowance (COLA) increase to any of our state employee workforce. While the state budget included COLA, we did not implement it at AAC and never received the money from the State.
- We also have not provided raises to our state employees in the past four years. I recognize that AAC employees are well paid and that the state is facing serious financial challenges.
- Alaska Aerospace Corporation is transforming into a diversified company that, in this past year, has demonstrated the resilience of our workforce to create new opportunities and secure new business for Alaska.

Conclusion:

AAC wants to be part of the solution. That is why our Board has recommended to Governor Walker to proceed with the Public-Private Partnership, create the environment to allow AAC the potential to repay the \$30.2 million back to the state, and diversify our economy at a time when we can ill afford to see more Alaskans unemployed or be sending a message to the world that Alaska is NO LONGER an aerospace state.

Mr. Campbell thanked the committee and stated that he was prepared to answer questions.

Senator Olson thanked Mr. Campbell for his efforts, including those towards downsizing. He asked if AAC employees were part of the Public Employees' Retirement System (PERS) system.

Mr. Campbell answered in the affirmative, specifying that the 16 AAC employees were in PERS as well as the state health insurance program. He stated that part of the reason for his desire to move to a public-private partnership was to transition the employees out of PERS and out of the state system, which would lower costs and take some financial burden from the state.

Senator Olson wondered if the communities were paying 20 percent or more of the PERS liability. He wondered what percentage AAC paid of the PERS liability.

Mr. Campbell stated that AAC paid payroll every two weeks, and included funding for obligations to the state. He expanded that in the past, AAC had received some funding against the PERS liability.

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Senator Olson asked what AAC paid in percentage to the PERS contribution, as the communities paid at 22 percent.

Mr. Campbell stated that AAC paid the same contribution as other state agencies, and was not sure of the percentage.

Co-Chair MacKinnon asserted that the committee would like to know about the unfunded liability for employees under the new Governmental Accounting Standards Board (GASB) rules. She asked about a termination study on the pension system that could have taken place when AAC downsized.

Mr. Campbell stated that the corporation had a study done by PERS that specified the cost to AAC for transitioning out of PERS to a public-private partnership, and offered to provide it to the committee.

Co-Chair MacKinnon asked about the \$58 million in investment by the state. She thought that there had been great benefit to the people of Alaska, but noted that the state was looking for a return on investment rather than just a cash-out sale. She suggested that with an average rate of return of 4.25 percent, there would have been a \$2 million to \$2.5 million payment to the state for the investment. She disagreed with what appeared to be the assertion that the \$32 million investment would be lost

forever. She thought there was greater value in AAC than was reflected in Mr. Campbell's statement.

Mr. Campbell discussed the public-private partnership proposal, noting that the public portion would be to retain the assets, and the capital investment money would remain state assets. He confirmed that the monies paid back were still part of the asset base that was invested. If the facility was divested from the state, the additional capital funds that were placed into the facility should also be recouped by the state. He characterized the private sector as the operating side, while the public sector would retain the full value of the assets.

Co-Chair MacKinnon expressed interest in an update from the administration or from Mr. Campbell as to the proposal for the public-private partnership. She commented that the legislature had been left out of the loop while the idea was being developed.

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Senator Bishop was curious about the range safety and telemetry systems (RSTS), and wondered if Mr. Campbell could elaborate. Mr. Campbell stated that range safety was a mobile system, and a range safety team had been established with members who would be FAA certified to use the facility at any range around the world. He informed that the first contract was with Rocket Labs, to do its services under an FAA license in New Zealand. He continued that AAC would have all the equipment shipped to New Zealand, and the team would likely travel to provide support for the first four launches. Then the equipment would be brought back to do the Alaska launches after the rocket was certified.

Mr. Campbell discussed a joint venture with another company that was very interested in marketing RSTS on the east coast of the United States and other locations far from Alaska. He continued that the joint venture envisioned providing services to the United States Department of Defense, NASA, and commercial customers in various locations. He recalled the previous year when he had hoped to use RSTS for generating funds, and emphasized that AAC currently had a contract that was driving it to do so. He described that the team was established and the FAA certification process was underway; and added that AAC was

negotiating a joint venture that could be used with another company in other locations that had not been envisioned a year previously.

Co-Chair MacKinnon asked if the agency had any outstanding liabilities (through contracts or other means) that the legislature should be aware of. She recalled Mr. Campbell saying there was no outstanding debt obligation.

Mr. Campbell agreed to provide a report to identify what liabilities could be created if AAC were to be shut down. He used the example of the rocket lab contract. He stated that there were no liabilities other than PERS; and there was no bonding or loans with any banks. He detailed that in the case of a shutdown, customers of AAC could seek remedy from the state.

Co-Chair MacKinnon asked about the number and length of any contracts AAC had. Mr. Campbell mentioned contracts with BlackBridge and Rocket Lab; and pledged to provide a more thorough written response with details.

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Co-Chair MacKinnon reiterated that she had asked each enterprise agency a series of questions to address in its presentation. [Note: the questions appear as the title of each slide in the presentation by the Alaska Housing Finance Corporation (AHFC)].

^ALASKA ENTERPRISE AGENCY ANALYSIS: ALASKA HOUSING FINANCE CORPORATION

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BRYAN BUTCHER, CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE (via teleconference), discussed the presentation "Alaska Housing Finance Corporation," (copy on file).

Mr. Butcher addressed slide 1, "What is the strategic vision and value to Alaska?" and discussed the agency mission statement: to provide Alaskans access to safe,

quality, affordable housing. He expanded that slide 1 addressed many of the different things that were done at the corporation, including that the Alaska Housing Finance Corporation (AHFC) was a self-supporting corporation with offices in 16 communities statewide. He emphasized AHFC mortgage programs, which were geared towards affordable housing or workforce housing, and tended to be for Alaskans that were credit-worthy but had a more difficult time obtaining a mortgage through secondary mortgage markets such as Fanny Mae and Freddie Mac. He used examples such as the tax exempt first-time homebuyers program and the tax exempt veterans mortgage program; both of which could only be administered through AHFC by federal law. He mentioned the rural loan program and multi-family loans as additional examples.

Mr. Butcher continued to discuss AHFC functions, and noted that the corporation had taken a bigger role in the state's mortgage business and housing market. He used the example of the recession in the late 1980s, when foreclosure rates were very high and it was difficult to obtain home loans. At that time, AHFC were responsible for 90 percent of all mortgages being given. He discussed foreclosures and the action of AHFC in not flooding the market, but rather holding the foreclosures until the market recovered.

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Mr. Butcher continued discussing slide 1, noting that about half of AHFC's activities related to public housing. He reported that the corporation administered 1,600 public housing units in 14 communities in the state for the United States Department of Housing and Urban Development (HUD). Additionally, AHFC administered 5,000 housing choice vouchers (that went to landlords) which put approximately \$4 million in to the private sector. He detailed that the vouchers were part of a 100 percent federally funded program that AHFC administered for the federal government.

Mr. Butcher discussed the AHFC dividend, and the value it had to Alaska.

Co-Chair MacKinnon referred to consolidation, best practices, and duplication of services (in the private sector or in other state agencies) as factors the committee was considering during the challenging fiscal climate. She referred to the mortgage program for credit-worthy

Alaskans; and wondered if the general private sector mortgage lending was up, down, or static. Mr. Butcher reported that the program had been up quite a bit over the last couple of years. He furthered that AHFC was a secondary market that relied on banks, credit unions, and mortgage companies to initiate the mortgages before it bought them. Mortgage activity over the last two years had gone up 21 percent to about \$500 million. He estimated that in the previous year, roughly 20 percent of the mortgages in the state were from AHFC.

Co-Chair MacKinnon asked if the state was buying the mortgages on the secondary market. Mr. Butcher clarified that AHFC served a role similar to that of Fannie Mae and Freddie Mac. He emphasized the benefit of giving housing loans; it kept the funds within the state, and gave customers more personalized attention if they had any extenuating circumstances.

Co-Chair MacKinnon asked if the AHFC default rate was comparable to those of private sector banking organizations. Mr. Butcher stated that the foreclosure rate and delinquency rate of AHFC loans were extremely low, and were currently the lowest that had been seen in eight years. He specified that the foreclosure rate was approximately 37 one-hundredths of one percent, and the delinquency rate (30 days or longer) was a little more than 3 percent. He relayed that AHFC had one of the lowest rates of delinquency and foreclosures as compared to other states.

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Co-Chair MacKinnon asked if AHFC was the only agency that could manage tax exempt first-time home buyers and veterans mortgage programs. Mr. Butcher answered in the affirmative.

Co-Chair MacKinnon asked if it was typical in other states to have a corporation doing what AHFC did.

Mr. Butcher stated that all 50 states had a housing finance agency. He continued that there were a couple of small public housing agencies that had combined with housing like AHFC had; however AHFC was the only statewide office that had the same combination of functions.

Co-Chair MacKinnon asked if there was a way to transition to a public-private partnership, taking the state's assets and handing over management responsibilities inside the private sector.

Mr. Butcher thought it would be difficult to transition to a public-private partnership, and thought it might require a change in federal statute. He offered to get back to the committee with further information. He had not heard of a variance of the management model of state agencies administering the federal funds.

Mr. Butcher showed slide 2, "2. When was AHFC created and how much state funds were invested?":

AHFC was created in 1971

AS 18.56.020. Alaska Housing Finance Corporation.

The Alaska Housing Finance Corporation is a public corporation and government instrumentality within the Department of Revenue, but having a legal existence independent of and separate from the state.

Governed by Board of Directors

Board requirements specified in AS 18.56.030.
Corporation governing body

State funds invested: \$1,069,523,000

Mr. Butcher detailed that the Alaska Housing Authority (AHA) was created by the territorial legislature in 1946, and had to do with federal public housing. In 1959 under the Alaska Statehood Act, AHA became the Alaska State Housing Authority (ASHA), which managed the public housing portfolio that AHFC currently had. In 1971, AHFC was created; and between the years of 1976 and 1985, a little over \$1 billion was invested by the state in AHFC. The corporation was set up as a legally independent agency from the State of Alaska, primarily so the debts of the corporation would not become the debts of the state. He gave an example of the current AHFC debt of bonds to fund mortgages at a little over \$2 billion. He clarified that any calculation of the state's debt would not consider the debt of AHFC.

Mr. Butcher continued on slide 2, recounting that in 1992 the legislature passed a bill that merged ASHA with AHFC,

and henceforth AHFC had been operating the public housing function as well as the mortgage function. He expanded that the change added the rural loan program from the former Department of Community and Regional Affairs, and the loan program had included weatherization and energy programs.

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Senator Dunleavy referred to the statute referenced on slide 2. He wondered which aspects of the business were independent of the state and which were not. He asked if AHFC employees were part of the state retirement system.

Mr. Butcher answered in the affirmative.

Senator Dunleavy asked to hear a list of functions for which AHFC was dependent upon the state or independent of the state.

Mr. Butcher stated that AHFC was legally independent with regard to debt; and had a self-supporting operating budget which was run from agency receipts, federal funds, and other funds. He explained that AHFC employees were not state employees; they were within PERS, but paid into social security rather than SBS. He continued that AHFC was not in the state health care system, and had its own personnel and procurement rules and regulations. He stated that aside from being a part of PERS, AHFC was mostly independent.

Senator Dunleavy asked if there were bargaining units within AHFC. Mr. Butcher stated there was one bargaining unit, the Alaska Public Employees Association (APEA).

Senator Olson wondered what percentage AHFC contributed to the PERS system.

Mr. Butcher specified that the corporation paid 22 percent, like the other state departments.

Senator Olson related a concern about state employees earning in excess of the governor's wage, and large retirement liabilities. He noted that individuals from his district had pointed out the issue.

Senator Bishop asked how many people were within the bargaining unit. Mr. Butcher estimated there were 56 people

in the APEA bargaining unit, and stated that the number could change on a day-to-day basis.

Co-Chair MacKinnon referred to the 2016 Department of Revenue Public Debt Report. She read that AHFC was listed under a category for state guaranteed bonds for the veterans mortgage program, with an outstanding principal of \$56,900,000; and with total debt service at maturity of \$94,600,000.

Mr. Butcher explained that the only piece of AHFC debt that had the general obligation of the state was the tax exempt veterans loan program, which was required by federal law. He expanded that when bond debt capacity was needed for the program, a bill would be passed and the issue would go on the general election ballot for the people of the state to vote upon. He recalled that 2010 had been the last occurrence of the issue in Alaska, and recounted that the issue had passed with about 70 percent of the voters in support. He thought the current outstanding principal was \$46 million, and explained that the only way the liability would reach the state would be if all the loans and the corporation itself defaulted.

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Co-Chair MacKinnon referred to a report showing \$7.8 billion of outstanding debt, and wanted to ascertain how it might affect the state's credit rating. She detailed that some of the amount was municipal debt, some was general obligation bonds (\$1.3 billion), and some was other projects.

Co-Chair MacKinnon referred to page 5, which listed AHFC in a category of state agencies having "collateralized or insured debt" and having \$852 million for mortgage revenue bonds. The report indicated a date range of 2002 through 2011.

Mr. Butcher stated that the number sounded correct.

Co-Chair MacKinnon asked if there was a moral obligation of the state.

Mr. Butcher answered in the negative, and specified that the only obligation the state had on any of AHFC debt was the \$46 million of the veterans loan program.

Co-Chair MacKinnon asked if the debt was insured through the state, or if there was another connection.

Mr. Butcher answered in the negative.

Mr. Butcher turned to slide 3, "3. What is the current level of funding from the Legislature?" The slide showed a pie chart entitled "AHFC FY2016 Operating Budget." He detailed that the operating budget included \$57 million in federal funds, \$33 million in corporate funds, a small amount of capital improvement projects, and \$800,000 in interagency receipts. He pointed out that within the \$57 million in federal funds, there were HUD voucher funds passed through to landlords while AHFC managed the program.

Mr. Butcher turned to slide 4, "FY2016 Appropriated Capital Budget," noting that many of the programs could be seen in AHFC's capital budget request every year.

Mr. Butcher turned to slide 5, "Board of Directors," which depicted photographs and identification of the AHFC Board of Directors. He detailed that three members were commissioners of state agencies (the Department of Revenue, the Department of Health and Social Services, and the Department of Commerce, Community and Economic Development). The board chair was Brent LeValley of Fairbanks, and filled the statutory position of a person with expertise in finance or real estate. The vice chair was Marty Shuravloff, who filled the position of a rural resident of the state and a person who had experience with a regional housing authority. He relayed that board member Alan Wilson had expertise with residential energy-efficient homebuilding and weatherization; and board member Carol Gore had expertise with senior and low-income housing. He noted that there were public members from the Interior, South-Central, Southeast, and one from rural Alaska. He thought AHFC had good regional representation on the board.

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Mr. Butcher turned to slide 6, "4. What is the management structure?" The slide illustrated a flow chart of AHFC. He pointed out the board of directors at the top of the chart, and directed attention to areas of the corporation divided according to how the components had come together in the 1992 merger. He noted that the blue section (public

housing) was formerly ASHA, yellow (operations) was the original AHFC, and the orange section (rural housing) was the energy department that come over from the Department of Community and Regional Affairs.

Mr. Butcher turned to slide 7, "5. How many employees and how are they funded?":

AHFC Employees

- AHFC has 313 full-time PCNs, and authorization for part-time and non-permanent employees, totaling 350.
- Approximately half of the employees work in the federally funded public housing division.
- Federal funds, along with mortgage and investment earnings, support the operations of the corporation.
- AHFC's employees are not employees of the State of Alaska; however, they do participate in the state's retirement system.

Mr. Butcher stated that in the last decade, AHFC had seen its employee count (permanent, full-time employees) drop from 328 to 313. He shared that AHFC was working with the University of Alaska Anchorage on a business improvement plan, and anticipated that employee numbers would continue to drop. He thought the corporation could do things more efficiently and more effectively.

Senator Dunleavy asked about a program that had set up a multi-use housing program whereby buildings could contain residential housing as well as commercial space.

Mr. Butcher though Senator Dunleavy was referring to HB 50. He stated that the program was in effect. He noted that slide 17 would show the advantage of the program in question, and illustrate how organizations and groups had been able to work cooperatively on housing issues as they had not been able to in the past.

Co-Chair MacKinnon referred to slide 2, which indicated that the state had invested over \$1 billion. She wondered if Mr. Butcher had a breakdown as to whether the investment was cash, assets, or some kind of instrument.

Mr. Butcher did not have the information. He had a year-by-year breakdown of investment, but since most had occurred in the 1970s and 1980s it showed up in historical documents as total numbers. He imagined that the investments were cash, but acknowledged there may have been other things they were not aware of.

Co-Chair MacKinnon asked if Mr. Butcher would be providing a number for total assets owned by AHFC.

Mr. Butcher stated that the information would be presented in upcoming slides.

Co-Chair MacKinnon asked about slide 7 and wondered, under the new Governmental Accounting Standards Board (GASB) rules, what AHFC was carrying as an unfunded liability for the pension side of the system.

Mr. Butcher estimated that AHFC was carrying approximately \$29 million in unfunded liability for pension.

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Mr. Butcher turned to slide 8, "6. Does AHFC generate revenue?":

REVENUE TYPE - FY 2016 (Projected)
Mortgage and Loan Revenue
\$128,018,000
Externally Funded Programs
\$119,580,000
Total Investment Income
\$5,200,000
Other Revenue
\$12,690,000
Total Operating Revenues
\$265,488,000

- There are currently more than 15,000 loans in the AHFC mortgage portfolio.
- AHFC's main source of revenue comes from earning a positive spread on its mortgage and bond portfolio.
- Externally funded program revenue is from federal and state grants, so it has offsetting expenses and does not generate profit.

- Most of AHFC's cash is restricted by bond or statutory requirements to be liquid so investment income is limited to short term market rates.

Mr. Butcher qualified that the slide took a snapshot of revenue midway through the fiscal year, and the numbers on

Mr. Butcher turned to slide 9, "7. Does AHFC return a dividend to the State? How much?" The slide showed a line graph entitled "Summary of AHFC State Dividends by Fiscal Year." He told the committee he wanted to detail a history of the dividend. He pointed out that the corporation had paid the dividend in the early 1990s, at the same time that the state was interested in being reimbursed the \$1 billion that it had invested in the corporation. He pointed out on the graph that during FY 94 to FY 99, a tremendous amount was transferred from the corporation to the state, as the corporation had begun to pay a flat amount of \$103 million.

Mr. Butcher continued to discuss the graph on slide 9, and detailed a past problem that occurred when the net income of AHFC dropped below the flat dividend amount. Consequently, agencies had warned the corporation that it could be facing a downgrade if it continued to pay dividends in excess of the amount of earnings. He recalled that in 2004 a bill was passed that instituted a transfer plan, under which the corporation would pay 95 percent of its net income, subsequently lowering to 85 percent, and then to the current level of 75 percent. He discussed the recession in 2008 and 2009, the historically low interest rates, and the subsequent drop in the AHFC dividend. He added that the dividend was \$7 million two years previously; then trended upwards to \$19 million, and finally reached \$26 million.

Co-Chair MacKinnon asked about retained earnings.

Mr. Butcher specified that AHFC had approximately \$1.4 billion to \$1.5 billion in retained earnings.

Co-Chair MacKinnon reminded Mr. Butcher that the state was experiencing a revenue shortfall, and commented on the large size of AHFC's retained earnings. She suggested the board consider the earnings and why the corporation was not providing additional dividend funds to the state. She acknowledged there was reasons for having retained earnings

on the books, and suggested the state may be asking for a call on cash on its investment.

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Senator Bishop asked if AHFC had looked at contingency plans, and discussed past property acquisition in the 1980s. He wondered how much cash was necessary at the time, and how much the prorated amount would equate to (considering inflation) in the present time.

Mr. Butcher agreed to research the topic, and recalled that the corporation, when it had begun repaying the \$1 billion in dividends, was considerably larger than it is currently. He estimated that it was between \$1 billion and \$1.5 billion larger than present. He thought the size, along with budget pressure, created motivation to reimburse the original funds that had established the corporation.

Mr. Butcher presented slide 10, "Dividend Status":

- Total Dividends: \$1,957,180,000
- Total Expenditures: \$1,895,640,000
- Remaining to be Paid: \$61,540,000

Mr. Butcher explained that the \$61.5 million that was remaining to be paid was the dividend funds appropriated by the legislature that had yet to be expended.

Co-Chair MacKinnon asked if dividends paid to the state came with direction as to how they were to be invested.

Mr. Butcher clarified that the board approved budget requests, and the board approved based on the statutory plan calculation. The decision as to where the funds would be spent first came from the governor's office on December 15, and ultimately the legislature decided how the funds were appropriated.

Co-Chair MacKinnon understood that first the board made recommendations, then the governor passed his recommendation through, and then the legislature considered the recommendations.

Mr. Butcher concurred.

Mr. Butcher presented slide 11, "9. What are AHFC's capital assets?":

AHFC Capital Assets

Capital Assets - Non-Depreciable
(Land) \$20,200,000

Capital Assets - Net of Depreciation
(Buildings) \$93,000,000

Mr. Butcher quantified that \$14 million of the \$20 million in capital assets (land) was public housing land throughout the state that contained public housing units. He continued that there were a couple of low-income housing developments in Anchorage that were included in the total. He specified that \$76 million of the \$93 million in capital assets (buildings) was public housing buildings around the state. The remaining \$17 billion in capital assets (buildings) was an office building in Anchorage, and a couple of other buildings.

Mr. Butcher discussed slide 12, which showed a chart titled "NON-CAPITAL ASSETS":

NON-CAPITAL ASSETS FY 2016 Q2
Mortgage Loans & Notes
\$2,765,495,000
Investments & Cash
\$749,302,000
Direct Financing Lease
\$36,175,000
Other Assets
\$54,508,000
Total Non-Capital Assets
\$3,605,480,000

Mr. Butcher detailed that about \$170 million of the investments and cash was in bond resolutions, and \$116 million was restricted by contract. He furthered that the remaining cash supported operations; with \$250 million in short-term bonds for self-liquidity, and \$230 million for current mortgage commitments. He reiterated that AHFC had done approximately \$500 million per year of mortgages; the liquidity for the mortgages and the operations of the corporation were the primary focus.

Mr. Butcher relayed that the direct financing lease funds represented AHFC's ownership of the Atwood Building and the garage in Anchorage. He detailed that the Atwood Building lease with the state would expire in 2017, and that of the parking garage in 2027. He noted that the other assets were primarily mortgage foreclosures, homes AHFC owned short-term before selling, and various smaller items.

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Co-Chair MacKinnon asked if the dividend was paid out statutorily.

Mr. Butcher stated that a bill had passed in 2003, and the dividend was put into statute. The statute listed the dividend calculation equation; taking a certain percentage of adjusted change in net assets, as well as consideration of a listing of debt-service payments on previous capital projects.

Mr. Butcher discussed slide 13, "10. Does AHFC have bonding authority? Issued, outstanding, capacity?":

AHFC Bonds

- Bonds are issued for financing single family and multi-family mortgages with emphasis on first-time homebuyers, veterans, rural and special needs populations in Alaska.
- Bonds are issued for governmental purposes, including state capital projects and state building leases.
 - Alaska Energy Efficiency Revolving Loan Fund is a recent example of bond authority granted to AHFC
- \$2.2 billion outstanding as of 12/31/15.
- Annual bonding capacity limited by state statutes to \$1.5 billion, not including refunding bonds.
- Qualified tax-exempt bonds are limited by federal tax laws.

Mr. Butcher clarified that the \$2.2 billion outstanding was debt to the corporation rather than debt to the state. He added that AHFC had not come near to bond capacity limits for many years.

Co-Chair MacKinnon asked what interest rate AHFC was charging single-family or first-time home buyer. She wondered if the rate was higher, lower, or equal to the private sector rate.

Mr. Butcher stated that the rate depended upon the borrower and the timing of the loan. He specified that the current rate for tax-exempt first-time home buyers was three and five-eighths percent, and the rate for taxable first-time home buyers was approximately three and seven-eighths percent. He noted that there were various add-ons from a number of programs that could potentially change the rate. He stated that AHFC was generally competitive with interest rates from Fanny Mae and Freddie Mac.

Co-Chair MacKinnon discussed annual bonding capacity, which was limited by state statutes to \$1.5 billion, and asked if the limit was cumulative and went up each year.

Mr. Butcher explained that the limit was not cumulative, and was a per-year limit.

Co-Chair MacKinnon asked about the statement on slide 13 that specified there was \$2.2 billion outstanding as of December 31, 2015.

Mr. Butcher explained that the \$2.2 billion was the total of all the loans that AHFC had taken over the years, and was owed in bonds. He clarified that the \$1.5 billion was a limit for what could be done in a single year.

Co-Chair MacKinnon asked for clarification. She requested a graph of the previous 10 years to illustrate how much new debt had been taken on each year, overlaid with the total accumulated debt for the 10 year period.

Mr. Butcher agreed to provide the information.

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Mr. Butcher discussed slide 14, "12. Does AHFC have any outstanding liabilities the Legislature should be aware of?":

AHFC LIABILITIES
FY 2016 Q2
Bonds Outstanding

\$2,172,115,000
Short Term Debt
\$23,999,000
Interest Rate Swaps
\$162,699,000
Other Liabilities
\$49,803,000
Total Liabilities
\$2,408,616,000

Mr. Butcher explained that almost all of AHFC liabilities were in outstanding bonds. He detailed that the majority of the \$49 million listed for 'other' liabilities was \$29 million in pension liability.

Vice-Chair Micciche extrapolated that there was about \$1.3 billion in assets after adding capital and non-capital assets and subtracting liabilities.

Mr. Butcher affirmed that AHFC had about \$1.4 billion in assets, with invested capital assets of \$113 million.

Co-Chair MacKinnon clarified that Mr. Butcher had stated the previous slide correctly and she had misheard.

Mr. Butcher discussed slide 15, "8. Is AHFC able to receive/leverage Federal funds?":

AHFC Federal Funds

AHFC is scheduled to receive \$59,000,000 for administering federal housing programs in FY2017 Operating Budget.

\$35,000,000 for Housing Assistance Payments (HAP) to private landlords throughout 13 communities for the Housing Choice Voucher Program.

\$15,400,000 operating revenue for 1,245 AHFC-owned units in the Low-Rent Housing Program.

\$4,900,000 operating revenue for 370 AHFC-owned units in the Section 8 Project-Based Multi-family Housing Program.

\$3,800,000 operating revenue for administrative expenses for the Housing Choice Voucher Program.

Mr. Butcher discussed slide 16, "Capital Programs with ability to combine federal funding with other mixed funding":

- Teacher & Other Professionals Housing Loan Programs
- HOME Program
- Rental Assistance for Victims (ECHP)
- Senior Housing Program
- Supplemental Housing Program
- Tax Credit Program
- Weatherization Program
- Competitive Grants for Public Housing
- Federal & Other Competitive Grant Program
- Emergency Solutions Grants
- Affordable Housing Development Program

Senator Dunleavy referred to a previous conversation with Mr. Butcher about the information on the slide.

Mr. Butcher recalled the conversation.

Mr. Butcher discussed slide 17, "Creekview Plaza", which showed an illustration of a property:

Creekview Plaza in East Anchorage became the first new construction opportunity for AHFC to utilize mixed-use financing granted by the legislature. During FY15, AHFC granted long-term financing for the development, which features 49 affordable rental units for elderly residents with commercial space on the ground floor.

Demonstrating the complexity of financing in home construction, Cook Inlet Housing is developing the project with \$3,836,150 in loans; \$2,333,333 from AHFC's Senior Citizen Housing Development grant funds; \$1,890,000 from AHFC's Supplemental Housing Grant Program; \$4,324,892 in anticipated proceeds from the sale of low-income housing tax credits; a Rasmuson grant of \$1,400,000, and approximately \$2 million of its own funds.

AHFC was able to offer the loan to Cook Inlet Housing after the legislature expanded its authority in 2014 to finance such projects. House Bill 50 was sponsored

by then Representative Mia Costello, and supported unanimously by her colleagues in the House and Senate.

Mr. Butcher discussed slide 18, which showed an image of the Ridgeline Terrace property. Mr. Butcher detailed that AHFC's subsidiary, Alaska Corporation for Affordable Housing, created in FY 14, was used for the first time in the development of Ridgeline Terrace and Susitna Square. He noted that the project was also a mix of many different funding sources; including \$9 million in federal tax credits, and private investor KeyBank. He continued that none of the projects could have occurred without private investors playing a role.

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Mr. Butcher discussed slide 19, "11(a). Are there other state entities or private corporations in Alaska that may provide the same or similar services as AHFC?":

- AHFC is Alaska's State Housing Finance Agency (HFA). HFAs are state-chartered authorities established to help meet the affordable housing needs of residents of their states. All 50 states have an HFA to address housing issues which are not, or cannot, be provided by the private sector.
- As a secondary mortgage lender, AHFC offers loans for first time homebuyers, Alaskans in rural areas, to veterans and others while working with private sector partners.
- The Alaska market is too small to rely on an out-of-state secondary mortgage lender to rapidly address economic changes. AHFC plays a critical industry role as a stabilizing entity in the Alaska housing market. The most dramatic example of this role was proven during the housing meltdown of the Alaska market in the 1980s.
- AHFC is unique among HFAs with integration of mortgage, public housing, affordable housing development and residential energy-efficiency programs all under one roof.
- AHFC is nationally recognized as an innovative leader with a skilled management team and maintains one of the highest credit ratings among its peers.

Mr. Butcher asserted that AHFC believed there were not other entities that provided the same or similar services as AHFC. He continued that AHFC worked with the private sector extensively, and many of the companies in the same area relied on the corporation. He thought AHFC was unique in that it integrated many of its activities. He specified that AHFC tried to contract out as much of the work as possible that was not part of the core operation of the corporation. He used the weatherization program as an example, which had expanded tremendously in 2008 and 2009. He detailed that AHFC had not hired more employees after program expansion, but rather directed the funds to non-profits and regional housing authorities in areas across the state. He noted that even as the program was reduced, there were skills learned and work done in the regions that would provide lasting benefit.

Mr. Butcher discussed slide 21, "11(b). Is AHFC subject to the state procurement code? Explain?":

AHFC Procurement

In 1990, Senate Bill 427 was passed (AS 36.30) providing that AHFC adopt its own procurement regulations subject to the provisions of the Administrative Procedures Act (AS 44.62).

AHFC's procurement regulations provide for a fair and open public procurement process and integrate well with other authority that governs AHFC's activities (15 AAC 150.300 through 15 AAC 150.490).

These include:

1. Bond Authority/Investment Strategies
2. Mortgage Loan Programs
3. Public Housing
4. Grant Programs
5. Subsidiaries

AHFC procurement regulations ensure the ability to respond quickly and efficiently to changing market conditions and multiple funding sources.

Mr. Butcher specified that AHFC had just updated its procurement regulations updated in December, 2014.

Mr. Butcher showed slide 22, "Other":

Northern Tobacco Securitization Corporation (NTSC):

- Legally independent from AHFC and the State.
- Bonds originally issued in 2000 and 2001 to securitize 80 percent of the tobacco settlement revenues. Bonds were refunded in 2006 and currently mature in 2046.
- Bond proceeds were used to fund \$405,000,000 in state capital projects.
- Currently \$350,000,000 bonds outstanding.

Mr. Butcher discussed subsidiary corporations of AHFC created when the legislature gave the corporation authorization. He recalled when AHFC created the subsidiary Northern Tobacco Securitization Corporation (NTSC) in 2000 to securitize some of the revenue flow of the tobacco settlement. He detailed that 20 percent of the funds remained in the state operating budget. He clarified that NTSC was legally separate from AHFC, and legally separate from the state; ergo the debts of NTSC were not the debts of AHFC or the state.

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Co-Chair MacKinnon referred to the debt report, and pointed out that on page 55, NTSC was listed under state agency debt for \$346 million in outstanding principal (of 2006 settlement asset-backed bonds). She asked if the listing was state debt.

Mr. Butcher explained that it was a debt of the NTSC, and not the state or AHFC.

Co-Chair MacKinnon stated that the committee would follow up with the finance team on the matter.

Senator Dunleavy asked about NTSC, and asked if it sold debt based upon future settlement or future tax on tobacco.

Mr. Butcher relayed that when the tobacco settlement occurred in 1999 or 2000, it set up a revenue stream that would come to all states involved in the lawsuit. The State of Alaska had an estimate as to what funds it would receive, and the bonds were sold to securitize 80 percent of the revenue stream. There were some potential changes based on how much tobacco use was in the state. The bonds

were purchased with the understanding that there was a high level of potential volatility. He furthered that the action was taken immediately after the Kasuylie vs. State of Alaska court case, in which the state was had been focused on getting rural schools constructed when there was little funding. The bill passed for AHFC to set up NTSC, with the intention that 40 percent of the revenue stream would be securitized in one year, and an additional 40 percent the following year.

Senator Dunleavy asked if the bonds were junk bonds because of the risk involved.

Mr. Butcher stated that the bonds were lower rated than one would normally see from AHFC or the state, but they were not junk bonds.

Co-Chair MacKinnon stated that she was interested in a full presentation on the NTSC.

Mr. Butcher agreed to create a presentation.

Co-Chair MacKinnon referred to a historical paper that included NTSC.

Mr. Butcher turned to slide 23:

Alaska Housing Capital Corporation (AHCC):

- Created in 2006 for the purpose of financing various capital projects of the state and financing expenses via enacted legislative action.
- Current balance of \$44,000,000 with \$23,000,000 appropriated.
- AHCC has no liabilities.

Mr. Butcher pointed out that AHCC was originally funded with a \$300 million appropriation from the state general fund (GF).

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Co-Chair MacKinnon expressed that the committee would like to include the Alaska Housing Capital Corporation (AHCC) in the presentation on NTSC.

Co-Chair MacKinnon referred to the earlier mention of capitalization, and wondered if the subsidiary corporation were part of the \$1 billion investment.

Mr. Butcher answered in the negative, and used AHCC as an example. He expanded that AHFC had created the subsidiary that held the funds, and managed it, but had no access to it. He furthered that AHCC was a stand-alone corporation for the benefit of state capital projects.

Senator Dunleavy requested that the report include such items as mission, purpose, board members, and bonding capacity.

Mr. Butcher agreed to include all of the items requested.

Mr. Butcher addressed slide 24:

Alaska Corporation for Affordable Housing (ACAH):

- ACAH was formed to develop, manage and operate affordable housing and provide supportive and related services to support the mission of AHFC.
- ACAH's functional mission is to undertake the types of affordable housing and services that are not open to AHFC directly but which support AHFC's mission.

Mr. Butcher outlined that ACAH had been established through legislation four years previously. The legislation had allowed the corporation to form a subsidiary that could develop, manage, and operate affordable housing with more flexibility. He specified that ACAH had received financial backing from a number of partners including KeyBank (as a tax credit investor) and the Rasmuson Foundation. He noted that ACAH was a relatively new corporation, had one development done, and had been successful.

Co-Chair MacKinnon asked how much in state funds was invested in ACAH.

Mr. Butcher stated about \$1.3 million.

Co-Chair MacKinnon stated that the committee wanted all the subsidiary corporations to answer the same 12 questions that had been posed to AHFC and other enterprise agencies. She wanted to gain understanding as to how the funds came

into the corporations and how the funds went out of the corporations.

Mr. Butcher agreed to provide the information. He pointed out that all the corporations were created by legislative action, with the exception of ACAH, which was created at the request of AHFC.

Co-Chair MacKinnon expressed appreciation for the way AHFC had managed the assets with the direction that the legislature had provided. She referred to the bond report (that showed all state debt) she had been viewing during the meeting, and confirmed that no there was state debt obligation under the commercial paper she had mentioned.

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Co-Chair MacKinnon asked if there was board policy or statute regarding retained earnings.

Mr. Butcher stated that there were discussions on the matter with the board on a regular basis, but did not think that there was anything in AHFC rules or regulations that pertained to retained earnings.

Co-Chair MacKinnon asked if Mr. Butcher could follow up with information about the \$1.4 billion in retained earnings, which she assumed was cash.

Mr. Butcher did not think the funds were cash. He stated that cash and mortgage loans played a role, much of which was restricted by contracts or were in reserve funds for bonds. He stated that the actual cash amount was not much larger than what was needed to keep liquidity for funding mortgages and the operations of the corporation.

Co-Chair MacKinnon asked if retained earnings were owned by the state.

Mr. Butcher answered in the affirmative.

Co-Chair MacKinnon discussed the schedule for the following day.

#

ADJOURNMENT

[3:14:19 PM](#)

The meeting was adjourned at 3:14 p.m.