

H B

258

COMMITTEE REPORT

HOUSE

3/4/81

FURTHER: FINANCE

(5)

Date: _____

Mr. Speaker:

The Committee on LABOR & COMMERCE has had HB 258

"An Act making a special appropriation to the Alaska State Housing Authority, family and handicapped housing development and construction fund for planning, developing, financing, and constructing housing for families and handicapped persons; and providing for an effective date."

under consideration and reports it back as follows:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
- new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Letter of Intent

CHAIRMAN



Official Business

Alaska State Legislature

House of Representatives

Pouch V
State Capitol
Juneau, Alaska 99811

April 30, 1981

Honorable Sam Cotton
Chairman House Finance

RE; HB 258

Dear Representative Cotton:

The Labor and Commerce committee passed out HB 258 an appropriation to ASHA.

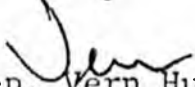
During testimony Mr. James Crawford Deputy Director testified that ASHA needed the 15 million in order to operate the handicapped construction fund.

It was brought to our attention that the Director of ASHA in a communications with Rep. Cuddy stated that ASHA needed only 5 million.

The bill passed out with the 15 million figure, but it was the wishes of the committee to inform you of the difference of opinion on the amount.

If you have any questions please feel free to call me.

Sincerely,


Rep. Vern Hurlbert
Chairman

STATE OF ALASKA

AUDIT DIVISION
POUCH W—ALASKA OFFICE BUILDING

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

JUNEAU, ALASKA 99811

March 31, 1981

Jim Crawford
Deputy Executive Director
Alaska State Housing Authority
P.O. Box 80
Anchorage, Alaska 99510

Dear Mr. Crawford:

We have reviewed your letter, dated March 9, 1980, commenting on our letter of February 23, 1980 to the Legislative Budget and Audit Committee. Your remarks are thought provoking indeed but, we think, not precisely pertinent to the subject addressed in our letter.

For example, with regard to the time period allowed ASHA to decide on dissemination of federal funds, you cite a letter from HUD calling for a decision in five days. The HUD allocations referred to are for existing housing units and rebuilding of low-income housing units. Neither of these require new construction of units, which is the main purpose of your request for the two \$15 million funds.

The recommendation in our audit report, and subsequent letter, described a federal allocation for construction of 130 new units of family housing which was lost due to construction bids which exceeded available funds. We maintain ASHA could have sought additional funds through a budget request to the Legislature, since, according to HUD correspondence dated August 18, 1977, the federal allocation was reserved for ASHA from January 1973 through June 1977, at which time it was cancelled. We believe four years should have been sufficient for ASHA to obtain supplementary funding for this project and similar projects in the future.

Moreover, during that same time period, two elderly housing projects received HUD allocations but could not be started because of insufficient funds to cover high construction

Jim Crawford
March 31, 1981
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bids. ASHA, however, was able to proceed with assistance from the Senior Citizens Housing Development Fund established by the Legislature in 1976.

Although not funded, the Housing Development Revolving Loan Fund, created at the same time as the Senior Citizens Fund, is a practical vehicle for ASHA to obtain funds to cover shortfalls in federal allocations. From the point of view of efficient cash management, these funds are preferred over creating new funds outside the State Treasury totalling \$30 million. They are subject to Legislative appropriation as well as remaining in the State Treasury until disbursement by ASHA.

We therefore reaffirm our position that separate funds within ASHA are not necessary for new construction allocation shortfalls. Funding vehicles currently exist which can be utilized within the time period HUD allocations are available.

Sincerely,



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

cc: Senator Arliss Sturgulewski ✓

TESTIMONY TO THE HOUSE LABOR AND COMMERCE COMMITTEE
BY: JAMES CRAWFORD, ALASKA STATE HOUSING AUTHORITY
APRIL 29, 1981

My name is Jim Crawford, I am the Deputy Executive Director of the Alaska State Housing Authority (ASHA). The Alaska State Housing Authority is a nonprofit public corporate authority funded through rental project revenues and subsidies from the United States Department of Housing and Urban Development (HUD). ASHA presently manages or owns and manages over 3,000 apartment units throughout the State of Alaska. The corporate authority is governed by a five member Board of Directors appointed by the Governor. The Commissioner of the Department of Commerce and Economic Development is a member of our Board of Directors.

My responsibilities at ASHA include, but are not limited to, arranging for financing through the tax exempt bond market and other methods of funding for new construction activities. As background to the preparation of the legislation under hearing today, please let me explain the audits of ASHA's fiscal year ended March 31, 1980. Because ASHA showed no apparent financial problems, HUD approved ASHA's contract with an independent auditing firm for compliance testing and the normal financial audit of federal and non federal programs. ASHA last year contracted with Peat, Marwick, Mitchell & Co. for that audit. No material findings were reported in the audit of ASHA activities either in the federal programs or the non federally funded activities. Next, HUD auditors did a performance review, again with much the same result. Finally, Division of Legislative Audit completed a special review and a full performance review of ASHA.

Subsequent to the recommendations contained in the audit report and within our Chairman's response to those recommendations, House Bills 256 through 260 were presented in draft form to the Legislative Budget and Audit Committee. We found the recommendations of the legislative auditors to be encouraging and the bills as redrafted by Legislative Budget and Audit will, if passed by the Legislature, be a positive step toward the greater production of needed senior, family and handicapped housing within the State of Alaska.

Specifically, with regard to House Bill 257 and 258, these bills establish and fund the Family and Handicapped Housing Development and Construction Fund in compliance with recommendation number 2 of the Division of Legislative Audit which states "ASHA should seek additional sources of funding of housing projects to assure that federal allocations are not lost." As stated in the audit report "In 1977, ASHA had no choice but to return to the Federal Government two allocations totalling approximately \$3,460,000 due

to the infeasibility of the projects. The allocations were for family housing in Juneau (80 units), and Ketchikan (50 units)."

ASHA has two main programs with which we deal with the construction of new federally subsidized housing within Alaska. The conventional low rent program which is a totally HUD financed program contains provisions for nationally applicable maximum prototype costs for each project. In a letter received from HUD on the cancellation of the Juneau and Ketchikan projects, HUD stated that they "were aware that these projects have not been able to be constructed because of the prototype costs in these areas have been too low and it is not reasonable for you to issue construction comments...". Therefore, when attempting to construct family and handicapped federally subsidized housing under the low rent conventional program, a construction shortfall occurs between available federal dollars and actual project cost. The passage of HB257 and 258 will allow for grants or loans to these projects in order to cover the construction shortfall.

Capital funds may also be used for the enhancement of the family and handicapped projects for the benefit of the program recipients. An example of the enhancement previously provided by ASHA in family projects is the barrier free handicapped units. Most of the changes made in ASHA projects which add amenities are at the request of local advocacy or advisory groups monitoring the construction of our projects. A central motivation of both the groups advocating senior housing and handicapped housing is the philosophy of age integration. The handicapped have continually stressed the need to lead as normal a life as possible and have facilities, though barrier free, integrated in a family atmosphere. The seniors have stated a definite desire to provide alternative housing for handicapped other than in senior projects as is presently the case.

The next program ASHA deals with is the Section 8 New Construction program which requires independent financing. The initial financial feasibility of an ASHA tax exempt bond financed project entails a determination from HUD of the per unit annual subsidy and fair market rent. When the fair market rent has been determined, ASHA subtracts its management and maintenance costs and therefore nets to a figure available for amortization. The figure available for amortization times the number of units in the structure equals the amount that may be financed through the tax exempt bond market. Again, due to the high cost of construction in Alaska, the figure available for amortization is insufficient to cover to total construction cost. Therefore, the need of a Housing Development and Construction Fund to cover, in the Section 8 instance, the financing gap and thereafter construction shortfall.

Flexibility and timeliness are primary reasons for the creation of capital funds. Our construction activities are tied directly to the availability of federal funding and the exigencies of the bond market. Our facilities must be completed within Alaska's short construction season. Our efforts, as illustrated by the proposed legislation, are to speed the construction of needed housing within the State. ASHA basically has two options when faced with a construction short fall as in the case of our present Juneau senior project:

1. Cut the project size as in the current Juneau instance from 24 to 20 units and cut amenities; or
2. Alternatively to admit the financial infeasibility of the project and defer construction.

Another reason for the creation of the funds is the actions of the Federal Government. According to an analysis of HUD budget cuts in the Wall Street Journal of March 14, 1981, conventional new construction subsidized housing will be cut 32.7% from 260,000 units previously proposed to 175,000; new construction authorization in the Section Eight program would be cut 39.4% from 130,000 to 78,750 for the entire country. Obviously then ASHA must stretch available federal dollars to their maximum and supplement those funds by leveraging in the bond market and also ask the legislature's consideration of the problem by proposing HB257 and 258.

Of additional concern to ASHA is the proposed elimination of the Indian Housing Program utilized by the regional housing authorities. A substantial portion of the need for family housing is centered in the rural areas of the State. In order for the regional housing authorities to meet the needs of their program recipients, capital funding must be available which will augment those funds still available through the U.S. Department of Housing and Urban Development and the Farmers Home Administration.

The particular needs of handicapped individuals and their incumbent greater cost in the development of housing could be accommodated by the passage of HB257 and 258.

ASHA is presently working with the State Department of Labor and the Census Division to isolate the need for housing then prepare a prioritized five year construction allocation recommendation for HUD concurrence. In the event the capital construction funds are established and funded, ASHA will be able to more aggressively perform marketing plans statewide for the benefit of ASHA's program recipients and those program recipients of the

regional housing authorities. Existing information concentrates on available housing stock and does not isolate the need for housing. It is our intention to work closely with the regional housing authorities to assist them in their fulfillment of the housing needs in the rural areas of the State as well as providing for the urban needs of Alaska's families and handicapped. Particularly in the face of a wildly fluctuating bond market a gap between available construction dollars and actual construction costs will force the delay or even cancellation of needed housing projects. Nationally established construction maximums do not reflect Alaska's costs. Consequently, otherwise worthy projects may not be built. We believe that HB257 and 258 are consistent with the recommendations of the Legislative Budget and Audit Committee auditors and that the legislation, if enacted, will be a positive step for the greater production of housing for families and handicapped within Alaska.

Pursuant to a request from Senator Fischer when corrolary bills were under hearing in Senate State Affairs I have attached to my testimony a listing of anticipated family and handicapped projects throughout the State. The listing details the location, cost and potential source of funding for the projects in total. Several assumptions are critical to the analysis of the attached list. Those assumptions are

1. Square footage cost is estimated at an average \$95.00 per square foot. Naturally, cost differentials exist between urban and rural construction, however, economies of scale on a larger project should offset the greater costs of smaller projects and therefore meet the average.
2. Based on rates available in the current tax exempt bond market and present fair market rents as set by the U.S. Department of Housing and Urban Development (HUD), we anticipate that approximately one-third of the total cost would be required as a State subsidy at the time of construction and two-thirds could be covered by direct HUD/Farmers Home loans/bonds or tax exempt bonding by ASHA.
3. The list was determined based upon projects that have been proposed, anticipated demand as evidenced by ASHA's waiting lists in our existing project and the current activities and plans of regional housing authorities.
4. Projects listed have yet to be analyzed for actual financial feasibility and therefore represent estimated needs only.
5. The lists are alphabetized and no priority has been given to the projects.

6. Square footage estimated for family and handicapped housing is 1,067 square feet for mixed two, three and four bedroom units. Presently ASHA has 27 handicapped units in our senior projects.

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LIST OF PROJECTS

ESTIMATED FAMILY AND HANDICAPPED DEMAND

<u>NAME OF COMMUNITY</u>	<u>NUMBER OF UNITS</u>
1. Anchorage	125
2. Bethel	50
3. Cordova	20
4. Fairbanks	75
5. Juneau	50
6. Kodiak	75
7. Kenai/Soldotna	50
8. Nome	50
9. Sitka	24
10. Valdez	25
11. Regional Housing Authority demand	<u>594</u>
TOTAL	1,138

Assuming the need for 1,138 units of family and handicapped housing, the estimated cost is as follows:

1,138 X 1,067 square feet (mixed two, three and four bedroom units) X 1.2 common area X \$95.00 per square foot =	\$144,505,944.00
Land cost at \$3,000 per unit =	3,564,000.00
Fees for architects and engineers, etc. (8% construction) =	11,560,475.00
Contingency and cost of bond issuance, etc. =	11,500,000.00
Interim interest (assume have money 1/2 year before project completion) =	12,000,000.00
ASHA administration (may be more or less for Regional Housing Authority projects)	<u>8,100,000.00</u>
TOTAL	\$191,230,419.00

Assuming total cost of \$191,230,419.00

<u>TOTAL ESTIMATED DEMAND</u>	<u>STATE CONSTRUCTION SUBSIDY</u>	<u>HUD/FARMER'S HOME OR ASHA FINANCING</u>
\$191,230,419.00	\$63,679,729.53	\$127,550,689.47

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