

SJR

39

COMMITTEE REPORT
SENATE

FURTHER: Finance

~~XXXXXX~~

4/28/81

Date:

May 15, 1981

Mr. President:

The Committee on JUDICIARY has had SJR 39

Proposing an amendment to the Constitution of State of Alaska relating to incurring general obligation indebtedness for housing

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass INDIVIDUATE do not pass
- do pass with attached RECOMMENDATIONS amendments(s)
- replace with CS for _____ same title
- and recommends _____ new title
- 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:

John...

...

CHAIRMAN

...

gagor who assumes a mortgage that had been made from proceeds of a qualified mortgage issue. Those requirements are the residence requirement (subsection (d)), the 3-year requirement (subsection (e)), the purchase price requirement (subsection (f)), and the income requirement (subsection (h)). These requirements are to be determined based upon the facts as they exist at the time of the assumption as if the loan were first being made at that time. For example, the average income of the statistical area is to be determined by the average income at the time of the assumption and not when the mortgage was originally made. Similarly, the purchase price requirement is determined by reference to the purchase price of the residence at the time of the assumption and not at the time the mortgage was originally made.

3. Qualified veterans' mortgage bonds

The bill also provides that qualified veterans' mortgage bonds shall not be treated as mortgage subsidy bonds. Under this provision, interest on a qualified veterans' mortgage bond will be exempt from Federal income taxation if the bond otherwise meets the general requirements of section 103.

In general, a bond is a qualified veterans' mortgage bond only if it meets certain specific requirements. First, the principal and interest on the bond must be secured by the general obligation of a State. Second, substantially all the proceeds of the bond must be used to provide residences for veterans.⁶ For purposes of this provision, the term "veteran" has the same meaning as in section 101 of Chapter 1 of Title 38 of the United States Code (relating to veterans' benefits). Under that provision the term veteran means a person who served in the active military, naval, or air service, and who was discharged or released therefrom under conditions other than dishonorable. Third, for bonds issued after the date of enactment of the bill, the bonds must be in registered form. (See above for a discussion of registered form.) Fourth, in order to be a qualified veteran's mortgage bond, no part of the proceeds of the bond may be used for acquiring or for refinancing of existing mortgages. The proceeds of a qualified veterans' mortgage bond are to be used solely for new mortgage loans.

4. Advance refunding

The bill prohibits the advance refunding of any bond if a significant portion of the proceeds are used for mortgages on owner-occupied housing. This provision applies to all bonds the proceeds of which are used for such purpose whether the bond was issued before, on, or after the date of enactment. Under this provision no obligation may be issued for the advance refunding of any mortgage subsidy bonds, including qualified mortgage bonds and qualified veterans' mortgage bonds.

In general, an obligation issued for the refunding of a mortgage subsidy bond will be considered to be an advance refunding obligation if it is issued more than 180 days before the prior issue is redeemed.

⁶ The term "substantially all" has the same meaning as under section 103(b)(4) of the Code.

THE OPTIONS

Tax-Exempt Revenue Bonds

Basically the Ullman bill limits Alaska's issuance of tax-exempt revenue bonds used for purchasing mortgages to \$200 million per year, of which only \$100 million could be issued by AHFC, the remainder being reserved for municipalities. Because of several other restrictions, listed in the attachment, AHFC has doubts about whether there would be even \$100 million of qualified mortgages that they could purchase. AHFC has commissioned ISER to provide them with a report, due this February, as to just how much demand in terms of qualified mortgages would exist in FY 82 as well as total mortgage demand. In any event, no tax-exempt revenue bonds can be issued after December 31, 1983 under the Ullman bill. Municipalities are waiting for Treasury regulations before taking any actions themselves.

Handwritten notes:
checked at
AHFC
report from
ISER (1/21/81)
or
has been
returned in?

G. O. Bonds for Veterans

The one loophole in the bill is that general obligation bonds for veterans' mortgages are not prohibited or limited. This avenue could possibly fulfill up to 40% of AHFC's demand.

However, constitutional questions about such bonds might effectively preclude their use prior to a constitutional amendment. The constitution provides that G.O. bonds are to be authorized only for "capital improvements." Some of the opinions on this issue hold that there are two tests of what constitutes a "capital improvement." One is that a tangible physical asset be created; the other is that the state acquire a legal interest in the asset.

Even if a legal opinion could be gotten which claimed G.O. bonds for veterans' mortgages were constitutional, the potential question would remain and might effectively preclude marketing the bonds. A constitutional amendment, if passed in the 1982 general elections, would not be of any assistance until the last half of FY 83.

Handwritten notes:
No
1982

1. Sale of Tax-Exempt Bonds: Although the Ullman Bill does sharply restrict the use of tax-exempt bonds, it does allow each State to sell tax-exempt bonds to a maximum of \$200 million per year or 9% of the average annual mortgages for the past three years. In the case of the State of Alaska, this means \$200 million per year could be funded through the sale of tax-exempt bonds. However, legislation further provides that only 50% of this amount can be utilized by the State Housing Finance Agency. Since the Alaska Housing Finance Corporation estimates a need of \$700 million for next year, \$100 million of this amount could be raised from the sale of tax-exempt bonds with the remaining \$600 million from other sources.

2. Pass Through Mortgage Certificates: Pass Through Mortgage Certificates are securities participating in a pool of specific mortgages whereby the actual payments to interest and principal pass through on a pro rata basis to the holder of the certificate. Because residential mortgages are traditionally paid off well before their maturity (average of 7 years), such certificates represent a shorter term investment than 30-year mortgage bonds. As a result, the required interest rate on such certificates is usually less than long-term bonds. According to the Barker memo, Merrill Lynch indicates that such certificates could be sold on the market for 13 1/8% as opposed to 15% for mortgage bonds.

3. General Obligation Bonds for Veterans: The Ullman Bill specifically allows the sale of tax-exempt general obligation bonds to fund veteran loan programs similar to those now in effect in California and Oregon. The staff of the Alaska Housing Finance Corporation has already explored this possibility and estimates that 30% to 40% of the total financing market is represented by veterans. Assuming the lower figure means that \$210 million of the total \$700 million need could be met through inexpensive tax-exempt bonds. Unfortunately, the issue has not been completely clarified as to whether or not Alaska can sell such bonds without a Constitutional Amendment. If the Attorney General rules that they can be sold, then immediate steps should be taken to implement such a bond sale. If a Constitutional Amendment is required, it will not be possible to implement such a program during 1981. Nevertheless, even though there might be a delay in implementing such a program, it will be a solution to future needs and should be pursued as quickly as possible.

4. Sale of Tax-Exempt Bonds for Rental Housing: Since the total thrust of the Ullman Bill was to limit the sale of tax-exempt bonds to make loans for the purchase of housing, it did not in any way limit the authority of the Alaska Housing Finance Corporation to sell tax-exempt bonds for low and moderate income rental housing. Since Alaska will soon experience a shortage of rental housing as well as owner-occupied housing, immediate steps should be taken to implement a sale of tax-exempt bonds to provide loans for construction of low and moderate income rental housing.

Alaska State Legislature

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Senate

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LEGISLATIVE COUNCIL

April 29, 1981

TO: All Senators

FROM: Senator Brad Bradley
by
FL Frank Lee, Staff Assistant

SUBJECT: Request for Co-Sponsorship

Last year, the United States Congress passed a piece of legislation that had severe effects on the bonding capability of states. This piece of legislation was known as the Ullman Bill, HR 5741. The Ullman Bill specifically allows the sale of tax exempt general obligation bonds to fund veterans loan programs, similar to those regulations now in effect in California and Oregon.

Figures that we have from the Alaska Housing Finance Corporation leads to an estimation that 30%-40% of their total financing market is represented by veterans loans. Assuming the lower figure, this means that \$210 million of the total \$700 million need could be met through inexpensive tax exempt bonds. However, the issue has not been clarified as to whether Alaska can sell such bonds without a constitutional amendment. In my discussions with the Attorney General's Office, I have been led to believe that, if we sold these bonds without a constitutional amendment, we would be exposed to a friendly court action.

I am proposing that we get a constitutional amendment on the ballot through a Senate Joint Resolution. Passage of this amendment would permit the State to issue tax exempt bonds for veterans housing loans. Rough estimates indicate a potential savings of \$25 million by using the general obligation bond market; and non-veterans, as well as veterans, would be benefited inasmuch as the entire AHFC portfolio would be more profitable.

I would appreciate your co-sponsorship on this very important resolution.

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

SJR 39

I. REQUEST

Bill/Resolution No. SENATE JOINT RESOLUTION NO. 39
 Title Amendment to the Constitution of the State of Alaska relating to incurring general
Requested by obligation debt for housing Date 4/28/81

Requested by Senate Judiciary Committee

II. FISCAL DETAIL

Agency Affected State Bond Committee, Dept. of Revenue
 Program Category Affected General Fund Debt Service

BRU, Program, or Subprogram(s) Affected _____

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL						

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Proposes an amendment to the Constitution of the State of Alaska to allow General Obligation bonds to be sold for housing for State residents. To be placed on the next general election ballot.

Any bonds sold will generate additional annualized debt service which would depend on the amount of bonds sold. Current AHFC level of production is \$500-\$700 million per year.

Anselm C. Staack

IV. DATE May 4, 1981 PREPARED BY Anselm C. Staack, Treasury Comptroller

AGENCY Dept. of Revenue/Treasury Division

Original: Legislative Finance PHONE 465-2351

cc: Budget and Management
Prime Sponsor (First Legislator Named)