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248

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST: _____

Bill Version: SB 248

Publish Date: _____

Revision Date: 5/8/87

Tide: Interest Rates Charged in State

Land Sale Contracts

Sponsor: Senator Faiks

Requestor: Senate Resources

Agency Affected: Natural Resources

BRU: Land and Water Management

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		309.3	309.3			
TRAVEL		0.0	0.0			
CONTRACTUAL		15.4	15.4			
SUPPLIES		7.1	2.5			
EQUIPMENT		3.6	0.0			
LAND & STRUCTURES		0.0	0.0			
GRANTS, CLAIMS		0.0	0.0			
MISCELLANEOUS		0.0	0.0			
TOTAL OPERATING		335.4	327.2	0.0	0.0	0.0

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND		40.6				
FEDERAL FUNDS						
OTHER		294.8	327.2			
TOTAL		335.4	327.2			

POSITIONS:

FULL-TIME		10.0	10.0			
PART-TIME		1.0	1.0			
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Tom Hawkins
Division: Land and Water Management

Phone: 465-2400
Date: 5/8/87

Approved by Commissioner: *Judith M. Burt*
Agency: Natural Resources

Date: _____

- Distribution (by preparer):
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency(ies)
 - Senate Secretary

Fiscal Note Analysis
SB 248

<u>Line Item Expenditures</u>	Rev. Annual Cost	# Of Positions/Cost	
		<u>FY 88</u>	<u>FY 89</u>
<u>100</u>			
Document Processing Clerk II	25.1	4.0/100.4	4.0/100.4
Natural Resource Tech II	30.7	4.0/122.8	4.0/122.8
Natural Resource Officer I	33.6	1.0/33.6	1.0/33.6
Natural Resource Manager I	43.6	0.5/21.8	0.5/21.8
Accounting Tech I	30.7	<u>1.0/30.7</u>	<u>1.0/30.7</u>
		309.3	309.3
<u>200</u>			
No Travel Expenses		0.0	0.0
<u>300</u>			
Certified Mail, Xerox, Telephone, Terminal Hookups, Advertising		15.4	15.4
<u>400</u>			
Misc. Supplies		7.1	7.1
<u>500</u>			
2 Terminals/2 Calculators		3.6	0.0
		<hr/>	<hr/>
TOTAL COSTS		335.4	327.2

DISCUSSION: Revisions made to the 4/22/87 fiscal note are as follows:

1) One position is authorized in FY 88 from general funds (40.6) to provide initial notification to these eligible to amend their contracts (100 - Natural Resource Officer I, 1.0/33.6; 300 - Certified Mail, Xerox, Advertising, 5.0; 400 - Miscellaneous Supplies - 2.0). No general funds are provided for FY 89.

2) Individual position costs have been reduced by 10% to conform with existing personal services funding levels of 90%.

3) The Department's assumption that workload will be substantially more in FY 88 than FY 89 is not reflected. Instead, in this revision positions are reduced in FY 88 and

increased in FY 89 in an attempt to more accurately reflect potential workload generated. This revision would allow for a "start-up" period to set up the unit and inform the public of the availability of refinancing.

4) Because this proposed program will operate on program receipts, it is essential that the authority to receive these funds be established. House Bill 263, dealing with establishing program receipt authority, needs to be amended to provide this authorization.

5) The Department's 4/22/87 fiscal note did not reflect the source of funding. In this revision, it is established as other funding or program receipts, except for the one start-up position to be funded by general funds.

* Sec. 3. A purchaser holding a land sale contract entered into under AS 38.05.065(a) or (b) before the effective date of this Act may amend the contract upon payment of an administrative service fee of \$250. The Commissioner of Administration shall separately account for all administrative service fees collected under this section that the Department deposits in the general fund. The annual estimated balance in this account may be used by the legislature to make appropriations to the department to carry out the purposes of AS 38.05.065. The interest charged on the balance due after the amendment shall be the rate charged by the Department of Natural Resources at the time the administrative service fee was received. A purchaser may not amend a contract under this section more than once.

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Letter of Intent

JB 248

If the Department of Natural Resources should find that the staffing and associated program receipts provided for in the fiscal note are insufficient to meet the refinancing demand for state land sale contracts, the department shall come to the Legislative Budget and Audit Committee for increased program receipt authorization.

5-1028B
Bannister
4/25/87

Original sponsor: Faiks

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 248 ()

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: 'An Act relating to state land sale contracts.'

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 * Section 1. AS 38.05.065(a) is amended to read:

9 (a) The contract of sale for land sold at public auction under
10 AS 38.05.055 shall require the remainder of the purchase price to be
11 paid in monthly, quarterly, or annual installments over a period of 20
12 years, with interest at the [PREVAILING] rate for real estate mortgage
13 loans made by the [FEDERAL LAND BANK FOR THE FARM CREDIT DISTRICT FOR]
14 Alaska Housing Finance Corporation under AS 18.56.098(g) at the time
15 the contract is signed. Installment payments plus interest shall be
16 set on the level-payment basis.

17 * Sec. 2. AS 38.05.065(b) is amended to read:

18 (b) The contract of sale for land sold under AS 38.05.057 and
19 under AS 38.05.078 shall require the remainder of the purchase price
20 to be paid in monthly, quarterly, or annual installments over a period
21 of not more than 20 years. Installment payments plus interest shall
22 be set on the level-payment basis. The interest rate to be charged on
23 installment payments is the [PREVAILING] rate for real estate mortgage
24 loans made by the [FEDERAL LAND BANK FOR THE FARM CREDIT DISTRICT FOR]
25 Alaska Housing Finance Corporation under AS 18.56.098(g) at the time
26 the contract is signed.

27 * Sec. 3. A purchaser holding a land sale contract entered into under
28 AS 38.05.065(a) or (b) before the effective date of this Act may refinance
29 the contract on payment of a refinancing fee of \$250. The interest rate

1 charged on the balance due after refinancing shall be the rate charged by
2 the Department of Natural Resources at the time the refinancing fee was re-
3 ceived. A purchaser may not refinance a contract under this section more
4 than once.

5 * Sec. 4. The provisions of sec. 3 of this Act do not apply to con-
6 tracts for the sale of mental health trust land or university trust land.
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5-1028B
Bradley
4/27/87

Original sponsor: Faiks

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 248 ()

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

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11 paid in monthly, quarterly, or annual installments over a period of 20
12 years, with interest at a [THE PREVAILING] rate that is equivalent to
13 the cost of funds for real estate mortgage loans made by the [FEDERAL
14 LAND BANK FOR THE FARM CREDIT DISTRICT FOR] Alaska Housing Finance
15 Corporation under AS 18.56.098(g) at the time the contract is signed.
16 Installment payments plus interest shall be set on the level-payment
17 basis.

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20 under AS 38.05.078 shall require the remainder of the purchase price
21 to be paid in monthly, quarterly, or annual installments over a period
22 of not more than 20 years. Installment payments plus interest shall
23 be set on the level-payment basis. The interest rate to be charged on
24 installment payments is a [THE PREVAILING] rate that is equivalent to
25 the cost of funds for real estate mortgage loans made by the [FEDERAL
26 LAND BANK FOR THE FARM CREDIT DISTRICT FOR] Alaska Housing Finance
27 Corporation under AS 18.56.098(g) at the time the contract is signed.

28 * Sec. 3. A purchaser holding a land sale contract entered into under
29 AS 38.05.065(a) or (b) before the effective date of this Act may refinance

II

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 2 charged on the balance due after refinancing shall be the rate charged by
 3 the Department of Natural Resources at the time the refinancing fee was re-
 4 ceived. III A purchaser may not refinance a contract under this section more
 5 than once.

6 IV * Sec. 4. The provisions of sec. 3 of this Act do not apply to con-
 7 tracts for the sale of mental health trust land or university trust land.
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Alaska State Legislature

Senate Resources Committee



Sen. John D. (Jack) Coghill, Chairman
Sen. Paul Fischer, Vice Chairman
Sen. Lloyd Jones
Sen. Arliss Stimpulewski
Sen. Jim Duncan
Sen. Fred Zharoff
Sen. Dick Lhasov

Box V
Juneau, Alaska 99811
(907) 465-1907

TO: SENATE RESOURCES COMMITTEE

FROM: COMMITTEE STAFF

DATE: APRIL 27, 1987

RE: SB 248, "An Act relating to the interest rates charged in state land sale contracts"

CONTENTS

1. SPONSOR'S MEMO AND BILL DESCRIPTION
2. SPONSOR'S MEMO ON PROPOSED CS FOR SB 248
3. FISCAL NOTE FROM SENATE RESOURCES COMMITTEE
4. MEMO AND FISCAL NOTE FROM DNR



Alaska State Legislature

SENATE

Office of the President

P.O. Box V
State Capitol
Juneau, Alaska 99811

April 23, 1987

MEMORANDUM

TO: Senator John B. "Jack" Coghill, Chairman
Senate Resources Committee

FROM: Senator Jan Faiks *Jan Faiks*
President of the Senate

SUBJECT: Background on Senate Bill 248
An Act relating to the interest rates charged
in state land sale contracts.

Senate Bill 248 has been referred to your committee for consideration. The purpose of this bill is to enable the Department of Natural Resources to issue land sale contracts with interest rates which more closely reflect current market conditions.

Currently AS 38.05.065 requires DNR to charge the prevailing Federal Land Bank (FLB) for the Farm District for Alaska interest rate for land sale contracts. The rate charged by DNR has been based upon the FLB rate since 1979. Originally this was done to ensure an objective, conservative index which tracked market loan rates for unimproved land without too much volatility. Prior to 1979 the statute stated that the rate would be at least five percent, and would be set by the director of the Division of Lands. By the late 1970's this broad guideline caused disagreements prior to every land sale, with the purchasers asking for extremely low rates at a time of double-digit inflation. Thus, the rate was then tied to the FLB rate to eliminate uncertainty by removing the determination decision out of DNR.

The FLB rate for the Alaska District has stayed at 12.75% since 1984. This rate is currently well above the private market levels in Alaska of between nine and ten percent.

SB 248 ties the interest rates charged on state land sale contracts to Alaska Housing Finance Corporation mortgage loan rates for conventional taxable loans under AS 18.56.098(g). As of March 27th, the rate for these loans made by AHFC was 9.125%.

SB 248 also would allow purchasers holding existing land sale contracts the option of refinancing to the new, lower interest rate upon payment of a \$250 fee. According to DNR, the \$250 will cover all of their costs of administering refinancing applications.

Currently the state has 6,000 contracts for land sales. DNR estimates that under the current interest rate, 750 are in foreclosure, and 90 more per month are going into foreclosure.

Should you need any further information, please let me know.

Thank you.



Alaska State Legislature

SENATE

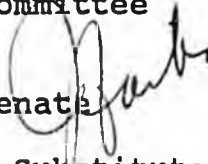
Office of the President

P.O. Box V
State Capitol
Juneau, Alaska 99811

April 27, 1987

MEMORANDUM

TO: Senator John B. "Jack" Coghill, Chairman
Senate Resources Committee

FROM: Senator Jan Faiks 
President of the Senate

SUBJECT: Proposed Committee Substitute for SB 248
An Act relating to state land sale contracts

In response to concerns raised by the Department of Natural Resources, I have attached a proposed Committee Substitute for SB 248 for the Resources Committee's consideration. In the department's April 24 letter supporting this legislation, three suggestions were made in order to clarify the intent of SB 248. These suggestions have been incorporated into the proposed Committee Substitute.

Recommendation I: Clarify the intent or definition of "nonsubsidized" AHFC rates. SB 248 changes the interest rate charged on state land sale contracts from the current system, which bases the rate on the prevailing rate charged by the Federal Land Bank for the Farm District for Alaska, and instead ties the rate to the AHFC loan rate for conventional taxable loans. This has been done by deleting the reference to "nonsubsidized real estate mortgage loans made by the Alaska Housing Finance Corporation", and adding new language to Section 1(a) lines 12 - 14, and Section 2(b) lines 23 - 25 in the proposed Committee Substitute to state:

with interest at the [PREVAILING] rate for real estate mortgage loans made by the [FEDERAL LAND BANK FOR THE FARM CREDIT DISTRICT FOR] Alaska Housing Finance Corporation under AS 18.56.098(a).

Recommendation II: Because interest rates can often change during the refinancing process, the department recommended setting the interest rate for refinanced land parcels at the AHFC rate at the time the downpayment or refinancing fee is received. This recommendation has been incorporated into the proposed Committee Substitute in Section 3, beginning on line 29, through page 2, line 3:

The interest rate charged on the balance due after refinancing shall be the rate charged by the Department of Natural Resources at the time the refinancing fee was received.

Recommendation III: The original wording of SB 248 was unclear as to how many times a purchaser would be allowed to refinance under the provisions of this act. The department recommended limiting an eligible purchaser to one refinancing per parcel. This has been incorporated into the proposed Committee Substitute by adding Section 3, page 2 lines 3 - 4:

A purchaser may not refinance a contract under this section more than once.

Recommendation IV: Currently the department administers land sale contracts for Mental Health Trust and University Trust lands, and is required to maximize the income these lands generate for the trusts. In order not to decrease the value of either of these trusts, the final change in the proposed Committee Substitute is to add a new Section 4 which states:

The provisions of sec. 3 of this Act do not apply to contracts for the sale of mental health trust land or university trust land.

Fiscal Note: Also attached is a revised fiscal note for the Resources Committee's consideration. The original fiscal note submitted by the department failed to include program receipts as the funding source. This is stated in the revised fiscal note. In addition, the revised fiscal note reduces the number of full-time positions from 17 to 3 in FY 88, reducing the personal services cost from \$592.1 to \$109.2. If the department receives more refinancing application fees than authorized by the fiscal note, then approval for additional program receipts could be granted by the Legislative Budget and Audit Committee.

Thank you for considering this proposed Committee Substitute for SB 248.

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

Bill Version: SB 248
Publish Date: _____

REQUEST: _____
Revision Date: 4/27/87
Title: Interest Rates Charged in State Land Sale Contracts
Sponsor: Faiks
Requestor: Senate Resources

Agency Affected: Natural Resources
BRU: Land & Water Management
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		109.2				
TRAVEL		0				
CONTRACTUAL		6.0				
SUPPLIES		4.0				
EQUIPMENT		2.0				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		120.7				

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		120.7				
TOTAL		120.7				

POSITIONS:

FULL-TIME		3.0				
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Senator Jack Coghill, Chairman Phone: 465-4745
Division: Senate Resources Committee Date: 4/27/87

Approved by Commissioner: _____ Date: _____
Agency: _____

- Distribution (by preparer):
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency(ies)
 - Senate Secretary

SB 248, Fiscal Note Analysis

<u>Line Item Expenditures</u>	<u>Rev. Annual Cost</u>
<u>100</u>	
Document Processing Clerk II	27.6
Natural Resource Manager I	47.9
Accounting Tech. I	<u>33.7</u>
	109.2
<u>200</u>	
No Travel Expenses	0.0
<u>300</u>	
Certified Mail, Xerox, Telephone, Terminal Hookups, Advertising/Notification	5.0
<u>400</u>	
Misc. Supplies	4.0
<u>500</u>	
2 Terminals/2 Calculators	<u>1.5</u>
Total Costs	120.7

DISCUSSION: Revisions made to the 4/22 fiscal note are as follows:

1) Because this proposed program will operate on program receipts, it is essential that the authority to receive these funds be established. House Bill 263, dealing with establishing program receipt authority, needs to be amended to provide this authorization.

2) The department's 4/22 fiscal note did not reflect the source of funding. In this revision, it is established as other funding or program receipts.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

400 WILLOUGHBY AVE.
JUNEAU, ALASKA 99801-1796
PHONE: (907) 485-2400

April 24, 1987

The Honorable Jack Coghill
Chair, Senate Resources Committee
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Coghill:

Subject: Senate Bill 248, which would change the criteria used to establish the interest rate for state land sale contracts.

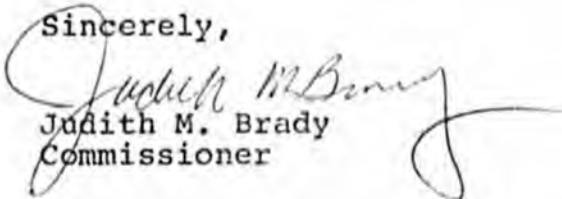
Position: The Department of Natural Resources supports this bill because it would result in lower interest rates for state land purchases and likely reduce the number of defaults and foreclosures on land sale contracts. This, in turn, would reduce state administrative costs for processing defaults and foreclosures. In addition, it would reduce the need to resell formerly valuable land at current low market prices.

Recommendations: Clarify the intent or definition of "nonsubsidized" AHFC rates, set the interest rate at the time the downpayment or refinancing fee is received, and limit an eligible purchaser to one refinancing per parcel.

We have not been able to obtain a clear explanation from AHFC concerning its definition of "nonsubsidized." Also, because the AHFC rate fluctuates more often than the federal Farm Credit rate, to avoid confusion, the interest rate should be set at a definite point in the sale process. The state does not hold an actual "closing" and unsigned contracts are often sent to purchasers through the mail, to be returned within 30 days. Within this period the interest rate could change.

Please let me know if additional information is required.

Sincerely,


Judith M. Brady
Commissioner

cc: Senator Fail.s
Senate Resources Committee Members
George Sullivan
Rod Swope

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version : SB 248
Publish Date : _____

REQUEST: _____

Revision Date: 4/22/87
Title: Interest rates charged in state land sale contracts

Agency Affected: Natural Resources
BRU: Land and Water Management

Sponsor: Falks
Requestor: Senate Resources

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		592.1	308.1	17.1	17.1	17.1
TRAVEL		0	0	0	0	0
CONTRACTUAL		15.4	10.0	5.0	5.0	5.0
SUPPLIES		7.1	2.5	.5	.5	.5
EQUIPMENT		3.6	0	0	0	0
LAND & STRUCTURES		0	0	0	0	0
GRANTS, CLAIMS		0	0	0	0	0
MISCELLANEOUS		0	0	0	0	0
TOTAL OPERATING		618.2	320.6	22.6	22.6	22.6

CAPITAL		0	0	0	0	0
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REVENUE		*	*	*	*	*
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME		17	8.5			
PART-TIME		.5	.5	.5	.5	.5
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

* See attached for information on revenues.

Prepared by: Tom Hawkins Phone: 465-2400
Division: Land and Water Management Date: _____

Approved by Commissioner: Judith M. Bunting Date: _____
Agency: Natural Resources

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

Line Item Expenditures

100

	Annual Cost	<u>#Positions/Cost</u>	
		<u>FY88</u>	<u>FY89</u>
Document Processing Clerk II	27.9	4.5/125.6	2.0/55.8
Natural Resource Technician II	34.1	6.0/204.6	3.0/102.3
Natural Resource Officer I	37.3	5.0/186.5	2.0/74.6
Natural Resource Manager I	48.4	0.5/24.2	0.5/24.2
Accounting Tech I	34.1	<u>1.5/51.2</u>	<u>1.5/51.2</u>
		592.1	308.1

FY 90 - 92 One Accounting Tech I - 6 months - \$17.1

Analysis

With the passage of SB 248, the Department of Natural Resources would have to negotiate and process a large number of contract amendments. These amendments could not be performed with existing personnel. We expect the greatest volume of requests to be experienced during the first year of eligibility under the bill. However, some requests may also be expected during the second year. Only a few would occur in subsequent years.

The contract negotiation and redrafting of contracts would be done by the Natural Resource Technicians and officers in the Division of Land and Water Management. A Natural Resource Manager I would supervise this task. The Accounting Technician positions would be in the Division of Management and would audit, change bills, cancel defaults, adjust accounts, close leases, transfer credits and communicate with the public.

200

No travel expenditures

300

Certified mail, xerox, telephone, terminal hookups	15.4	10.0
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400

Misc. supplies	7.1	2.5
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500

2 terminals and 2 calculators	3.6	0
	<u>618.2</u>	<u>320.6</u>

Revenues

Long term changes in revenue are difficult to calculate.

The approximately 6000 land sale contracts that are expected to be refinanced under this bill would bring in \$1.5 million over a two year period (6000 contracts X \$250.00 = \$1,500,000)

The loss in revenue due to refinancing 6000 parcels with an estimated total value of \$60 - \$70 million at a lower interest rate would be about \$1.5 million/year, assuming an average 3% reduction in interest rates over the life of the contracts. This loss may be only a paper loss, however, because without refinancing at a lower interest rate, defaults on land contracts will continue to occur. Currently, defaults are occurring at a rate of 90 per month, with an average parcel value of \$10,000.