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3/9/95

CS FOR SENATE BILL NO. 40(FIN)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:

Referred:

Funding Information:	General Fund	\$	-0-
	Other Funds	\$	<u>400,000,000</u>
		\$	400,000,000

Sponsor(s): SENATOR SHARP

A BILL

FOR AN ACT ENTITLED

1 "An Act making appropriations from the Alaska Housing Finance Corporation  
2 revolving fund to the general fund; and providing for an effective date."

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

4 \* Section 1. The sum of \$200,000,000 from the available unrestricted cash in the general  
5 account of the revolving fund, Alaska Housing Finance Corporation, is anticipated to be  
6 transferred by the direction of the Alaska Housing Finance Corporation board to the general  
7 fund. The money shall be deposited into the general fund when received during fiscal year  
8 1996.

9 \* Sec. 2. The sum of \$200,000,000 from the available unrestricted cash in the general  
10 account of the revolving fund, Alaska Housing Finance Corporation, is anticipated to be  
11 transferred by the direction of the Alaska Housing Finance Corporation board to the general  
12 fund. The money shall be deposited into the general fund when received during fiscal year  
13 1997.

14 \* Sec. 3. Section 1 of this Act takes effect July 1, 1995.

1

\* Sec. 4. Section 2 of this Act takes effect July 1, 1996.

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Called Legal  
3-9-95  
11:45 am  
9-LS0476\A

SENATE BILL NO. 40

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY SENATOR SHARP

Introduced: 1/20/95

Referred: STA, FIN

Funding Information: General Fund \$ -0-  
Other Funds 335,000,000

~~335,000,000~~

400

A BILL.

*BS*  
*Adopted*  
*1-1-96*  
*YCS (draft)*

FOR AN ACT ENTITLED

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**ALASKA HOUSING  
FINANCE  
CORPORATION**

**FINANCIAL ANALYSIS**  
**February 9, 1995**

Control Number  
04-4515-95

Prepared by:

The Division of Legislative Audit

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P. O. Box 113300  
Juneau, AK 99811-3300  
(907) 465-3830  
FAX (907) 465-2347

February 9, 1995

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached analysis is submitted for your review.

### ALASKA HOUSING FINANCE CORPORATION

FINANCIAL ANALYSIS  
February 9, 1995

Control Number  
04-4515-95

The accompanying analysis was prepared in response to a Committee request to review the assets of the Alaska Housing Finance Corporation and restrictions on those assets. We are prepared to work with the Legislative Budget and Audit Committee and the Senate and House Finance Committees to provide any additional analysis or detail deemed necessary as the legislature continues its review of the unrestricted assets of the Corporation.

The fieldwork procedures utilized in the course of developing the findings and discussion presented in this analysis are discussed in the Objectives, Scope, and Methodology section.

We would like to acknowledge the cooperation and professionalism of the Corporation's staff during our intensive review.

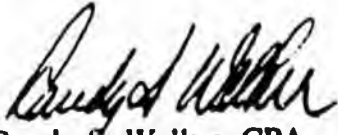
  
Randy S. Welker, CPA  
Legislative Auditor

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## OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

Based on a request from the Legislative Budget and Audit Committee, we performed a financial analysis of the Alaska Housing Finance Corporation (AHFC). The purpose of the analysis was threefold: first, to determine the amount of cash and investments that would be available in FY 95, FY 96, and FY 97 beyond that required by debt covenants and AHFC operations; secondly, to analyze changes in bond ratings from January 1994 through December 1994; and lastly, to review AHFC's collateralization policy and to determine if it changed during 1994.

### Scope and Methodology

#### Analysis of Available Assets

The financial analysis of cash and investments focused on two main areas, the general account<sup>1</sup> and the individual bond funds.

##### 1. Analysis of the general account

AHFC prepared cash flow projections on the general account for FY 95 through FY 04. This analysis forecasts the sources and uses of AHFC's unrestricted current assets and liabilities.

We reviewed the estimates on the cash flow analysis to determine if they were consistent with prior financial and statistical trend information. Major assumptions used in the cash flow analysis were the estimated rates of prepayments on current mortgage loans and the expected demand for new mortgage loans.

The cash flow projections were used to assess the impact of increased transfers to the State. The assessment included both analyzing the impact of the potential amounts to be withdrawn and the timing of any such withdrawals.

##### 2. Analysis of Bond Funds

Separate bond funds are maintained by AHFC to account for each bond issue or series of issues. This system of segregated funds is mandated by the bond indentures to directly associate the bonds with the related collateral and to provide for bond payment.

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<sup>1</sup> The general account is AHFC's unrestricted operating account.

We reviewed the September 30, 1994 balance sheets for each fund, all of the outstanding indentures and determined the normal redemption schedule, early redemption provisions, call and in-substance defeasance options, interest rates, restrictions on AHFC's general account, and loan recycling provisions. We also reviewed each fund's recent prepayment history in conjunction with prevailing mortgage interest rates.

Bond Ratings and Collateralization Policy

We reviewed several financial periodicals and an on-line financial reporting service to determine the ratings on the various bond issues. Information on bond ratings from Standard & Poor's, Moody's, and Fitch investment services was obtained and analyzed. We reviewed the amount of collateral pledged to the three new debt issuances in 1994, and the amount of collateral anticipated to be pledged for future debt issuances according to the 10-year cash flow projections.

## ORGANIZATION AND FUNCTION

The Alaska Housing Finance Corporation (AHFC or Corporation) was created in 1971 by an act (Alaska Statute 18.56) of the Alaska State Legislature. Effective July 1, 1992, the legislature merged the Alaska State Housing Authority (ASHA) and certain housing and energy programs administered by the Department of Community and Regional Affairs (DCRA) with AHFC. The authority of the Corporation now includes the financing, development, acquisition, rehabilitation, weatherization, sale, and management of dwelling units within Alaska.

AHFC accomplishes these objectives in part by functioning as a secondary market for qualified real estate and mobile home loans originated by financial institutions. In addition, the Corporation has special lending and grant programs that are specifically designed to meet the housing needs of low and moderate income borrowers. Also, AHFC maintains 1,678 units of public housing in 14 communities across the State and administers the federally funded Section 8 Program that provides rent subsidies for approximately 2,488 families housed in private sector housing.

The Corporation is authorized to issue its own bonds, bond anticipation notes, and other obligations in such principal amounts that will be necessary to provide sufficient funds to carry out its legislated purpose. Certain bonds issued to finance housing for qualified veterans are unconditionally guaranteed by the State of Alaska. All other obligations do not constitute a debt of the State.

The organizational structure of AHFC encompasses four divisions: the mortgage division, which administers the loan programs under the original AHFC structure; the public housing division, which administers the federal public housing programs formerly administered by ASHA; the research and rural development division, which administers the Alaska Housing Assistance Revolving Loan Fund and its related rural housing programs, and the supplemental development grant program<sup>2</sup>; and the planning and program development division, which in addition to other responsibilities administers the Corporation's housing grant programs including the energy and weatherization programs transferred from DCRA.

The AHFC board of directors consists of seven members: the Commissioners of the state departments of Revenue, Health and Social Services, and Community and Regional Affairs; and three public members with expertise in finance or real estate, residential energy efficient home building or weatherization, senior or low-income housing; and one member who is a rural resident or who has experience with a regional housing authority.

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<sup>2</sup>This program provides federally funded grants with a 20% corporate match to regional housing authorities to construct affordable housing in rural Alaska. Refer to Appendix A for more information regarding the program and Appendix B for amounts included in AHFC's proposed capital budgets for fiscal years 1996 through 2001.

The board of directors receives guidance in its oversight of AHFC's programs through the *Comprehensive Housing Affordability Strategy for the State of Alaska*, dated February 1992 and as updated annually. The National Affordable Housing Act of 1990 mandates that states develop a Comprehensive Housing Affordability Strategy<sup>3</sup> (CHAS) to address in depth a broad range of housing issues. A CHAS plan is required of all states who desire to participate in federal housing and community development programs and receive program funds from the new federal HOME program.

The State of Alaska's CHAS was initially developed by a coalition of representatives from certain state agencies, the Municipality of Anchorage<sup>4</sup>, and non-profit organizations with AHFC being the lead agency in the project. Federally required annual updates and performance reports of CHAS are coordinated and prepared by AHFC. Each new program considered by AHFC's board of directors is evaluated to determine if it is consistent with the State's CHAS.

Prior to FY 95, the operating budgets of the public housing programs, which are federally funded, were exempt from the Executive Budget Act. All public housing funds received were budgeted for expenditure with the approval of the board of directors<sup>5</sup>, or in accordance with the terms of a federal contractual agreement. In addition, the budgets for the U.S. Department of Housing and Urban Development (HUD) programs were submitted to HUD for approval. Beginning with the FY 95 operating budget, the public housing division operating budget must receive approval from both HUD and the legislature.

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<sup>3</sup>The plan is now known as the Consolidated Housing and Community Development Plan.

<sup>4</sup>The CHAS regulations require that states divide their jurisdictions into metropolitan and non-metropolitan, non-entitlement areas. The Municipality of Anchorage is the State's only metropolitan area and, accordingly, its only entitlement city. The Municipality of Anchorage has prepared a CHAS that has been incorporated by reference into the state plan.

<sup>5</sup>ASHA's board of directors through FY 92, then AHFC's board of directors beginning with FY 93.

## BACKGROUND

In 1991 Alaska Housing Finance Corporation (AHFC or Corporation) became the first housing agency to receive a credit rating based solely on its general obligation pledge. Criteria used when rating the general obligation of the Corporation includes its legislative mandate, management, financial operations, and the overall economy of the State. For Alaska the two main economic factors are the State's dependence on the oil industry and whether bond issues and mortgages extend beyond the Prudhoe Bay oil curve.

While each individual rating agency uses its own symbols to signify the credit risk associated with a security, all agencies classify bond ratings into investment grade and speculative grade. For example, Standard & Poor's and Moody's top four investment grade ratings are as follows: AAA, AA, A, and BBB; and Aaa, Aa, A, and Baa, respectively. Any other long-term ratings are considered speculative. Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category.

Generally, AHFC has a mid-level placement in the investment grade group. Maintaining investment grade status is important to AHFC because many financial institutions are only allowed to buy investment grade securities. If AHFC's rating was to drop below investment grade, not only would the interest rate increase for a particular issue but the marketability of the bonds would be severely impacted.

### A bond credit rating is an evaluative process

Bond ratings provide a guide to investors in determining the credit risk associated with a particular security issue. The ratings represent a credit rating agency's assessment of the bond issuer's ability to meet the obligations of a specific debt issue or class of debt in a timely manner. In general, the higher a credit rating a bond issue receives, the lower the borrowing costs in terms of interest rate. By statute AHFC interest charged on mortgage loans is tied to their borrowing costs.

Credit ratings can be assigned both to individual bond issues and to the general obligation of the Corporation. General criteria used when rating an individual housing bond issue includes identifying the portfolio, determining an expected actual loss, and availability of mortgage insurance. In addition to looking at the particulars on the issue, the rating company looks at the financial strength of the Corporation. The management team is scrutinized to see how well they are managing operations, and if the team has the ability to correct problems should they occur.

Bond rating agencies look at various factors when rating bonds. A high asset-to-liability ratio indicates that the bonds are sufficiently collateralized. Insurance on mortgage loans provides rating agencies with additional assurance that the mortgage loans will be paid off. High quality investment criteria for assurance that the investments provide sufficient liquidity to pay the principal and interest of the bond. And finally indentures that do not allow the issuance of additional bonds, so the collateral pledged supports that specific bond issue only.

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## REPORT CONCLUSIONS

Our analysis of Alaska Housing Finance Corporation's (AHFC or Corporation) financial statements and cash flow projections show that approximately \$445 million is available in unrestricted assets in the general account. However, we also found a creditor required clause in the Repurchase Agreement associated with the \$235 million Governmental Purpose Bonds 1994 Series A issued November 1, 1994 that prohibits the transfer of any AHFC assets to the State. If assets are transferred while the Repurchase Agreement is in effect, AHFC will be considered in default on those bonds. Finally, we reviewed AHFC's collateralization policy and found that it has remained constant.

### Default conditions in the Repurchase Agreement

AHFC issued the Governmental Purpose Bonds 1994 Series A, dated November 1, 1994, in the amount of \$235 million, which are variable rate general obligations of AHFC. This bond issue includes a unique "Event of Default" in the related Reimbursement Agreement<sup>6</sup>. An Event of Default occurs if,

*(1) the Borrower shall transfer any of its unrestricted assets to the State of Alaska or any department, agency, instrumentality or other political subdivision thereof pursuant to legislative appropriation or otherwise without (A) receiving in consideration therefor assets of equivalent fair market value and (B) first satisfying the Payment Conditions.*

Additionally, the Reimbursement Agreement does not grant a specific remedy to AHFC if this event occurs. However, AHFC could request the three primary banks to grant an amendment or waiver with regard to a transfer of unrestricted assets to the State, if approved by the AHFC board of directors.

### Event of Default is not likely to impact the Legislatures ability to appropriate AHFC assets

While the likelihood of a waiver from the banks involved is not known, AHFC believes that the State will make sufficient qualifying capital expenditures<sup>7</sup> to allow them to roll the variable rate debt into a long-term, fixed rate debt issue sometime in FY 96. At that time, the Reimbursement Agreement between AHFC and the banks would no longer be required and therefore, would be terminated. Accordingly, a transfer of unrestricted assets to the State would not be considered an "Event of Default."

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<sup>6</sup> The Reimbursement Agreement is a contract between AHFC and the banks to provide a dedicated line of credit from the banks (letter of credit) to support AHFC's obligation for re-purchasing bonds that have been sold back to the remarketing agent and are temporarily not remarketable due to the current weekly interest rate.

<sup>7</sup> This debt issue is tax-exempt because the proceeds are "deemed" to be used for capital projects for the State. Qualifying capital expenditures are expenditures for capital projects after August 8, 1994, as these expenditures are assumed to be made from monies transferred to the State from AHFC.

As of early February 1995, AHFC estimates that \$70 million of qualifying expenditures have been made and that before the end of FY 96 all necessary qualifying expenditures will be made. Therefore, while this restriction will not impact the legislature's ability to appropriate excess assets from AHFC, it may impact the timing of potential future transfers.

In the unlikely circumstance that there is an event of default, not only will this one debt issue be affected, but because of a cross default provision, AHFC's European Commercial Paper line of credit would also be considered in default. The total amount outstanding on this line of credit is approximately \$150 million.

Analysis of Assets

AHFC's financial statements and cash flow projections show approximately \$445 million of unrestricted cash that, except for the default provision discussed above, would be considered available unrestricted assets. This amount is in addition to the funds<sup>8</sup> being transferred by AHFC to the State in FY 95. The schedule below shows which fiscal year these funds would become available.

Funds by Fiscal Year <sup>8</sup>	(in thousands)
Fiscal Year 1996	\$295,000
Fiscal Year 1997	<u>150,000</u>
Total Available	<u>\$445,000</u>

Collateralization policy has remained the same

The bond agencies require certain amounts of collateralization in excess of the mortgage loans pledged for the bond issue. This additional collateralization is provided to ensure a sufficient cash flow of revenues to provide for the principal and interest payments to the bondholders, in case the payments from the pledged mortgage loans are insufficient due to delinquencies or mortgage loan foreclosure losses.

AHFC's policy is to follow the guidelines for a AAA bond rating that require excess collateralization from 9% to 65% depending on the quality of the pledged mortgage loans. Under this policy, AHFC bond issues have required between 9% and 11% of the aggregate mortgage loan balances for additional collateralization. These lower percentages are utilized as the pledged mortgage loans are generally of good quality with either guarantees from the Veterans Administration or the Federal Housing Administration, and other types mortgage insurance. AHFC could issue bonds at a lower rating (i.e., AA or A) requiring less excess collateralization. However, this would increase the cost of the bonds which would in turn increase the interest rates charged to the borrowers on the underlying mortgage loans.

<sup>8</sup> AHFC will transfer to the State's General Fund over \$220 million in FY 95. This amount is the combination of a \$20 million dividend payment and \$200 million appropriated by Chapter 3, SLA 1994.

## ANALYSIS OF BOND RATINGS

This section of the report will discuss the current bond rating for AHFC's outstanding issues, any rating changes occurring over the last year and summarize the responses of various rating agencies and brokerage firms to the transfer of assets from AHFC to the State in FY 95.

### Current bond ratings for AHFC's outstanding issues

The following table presents the bond ratings by Moody's and S&P as of December 31, 1994<sup>9</sup>. Fitch has not rated all of AHFC's bond issues and, therefore, was not included in the table.

Type of Bond Issue	Moody's Rating	Standard & Poor's Rating
Housing Mortgage Bonds	Aaa	AA
Home Mortgage Bonds	Aa1	A+
Insured Mortgage Bonds	Aa1	A+
Collateralized Home Mortgage Bonds	Aaa	AAA
State Guaranteed Collateralized Bonds (Veterans Program)	Aaa	AAA
Home Owners Assistance Program Bonds/Obligations	Aaa	AAA
State Guaranteed Bonds (Veterans Programs)	Aa	AA
Medium Term Notes	Aaa	AAA
Secured Bonds	Aaa	AAA
General Mortgage Revenue Bonds	Aa/VMIG1 <sup>10</sup>	A+/A-1+ <sup>11</sup>
Floating Rate Notes	Aaa	Not Rated

<sup>9</sup>We did not include any Housing Revenue bonds for specific projects in this schedule. Additionally, we did not review the HUD Notes Payable or any Federally subsidized debt due to the high quality of security provided to AHFC.

<sup>10</sup>VMIG1 is a short-term rating from Moody's assigned to the demand features known as variable rate demand obligations. The VMIG1 designation denotes the best quality for short-term investments due to the strong protection by established cash flows, superior liquidity, or demonstrated broad-based access to the market for refinancing.

<sup>11</sup>A-1+ is a short-term rating from S&P, which is a current assessment of the likelihood of timely payment on debt having an original maturity of no more than 365 days. The A-1+ is the highest rated category indicating the degree of safety regarding timely payment is strong and the issues with a plus sign are extremely strong.

Type of Bond Issue	Moody's Rating	Standard & Poor's Rating
Governmental Purpose Bonds	Aa2/VMIG1	AA+/A-1+
General Housing Purpose Bonds	Aa	A+
Housing Development Bonds	Aa	A+

Bond rating changes over the last year

Since the board of directors of AHFC approved a \$200 million transfer to the State on April 22, 1994, AHFC's bond ratings, long-term and short-term, have been reaffirmed by the Standard and Poor's Rating Group (S&P), the Moody's Investors Services, Inc. (Moody's), and Fitch Investors Services, Inc. (Fitch) with the exception of the bond issues discussed below. The affirmation of the ratings by these agencies was based on the single FY 95 transfer to the State of \$200 million. However, S&P did assign a negative outlook<sup>12</sup> to AHFC's general obligation bond ratings due to the possibility of future transfers to the State beyond the \$200 million.

Moody's did not change its ratings of AHFC bond issues during the period January 1, through December 31, 1994, while S&P revised its rating (non-transfer related) as follows:

The Home Mortgage Revenue Bonds, 1981 Second Series and 1983 Second Series, ratings were increased from A+ and AA-, respectively, to AA based on a rating analysis as of March 31, 1994. The 1981 Second Series bonds were called in 1994 and are no longer outstanding obligations of AHFC. S&P's reasoning for the increased ratings were as follows:

- Both mortgage loan portfolios had a strong asset-to-liability position at March 31, 1994;
- The mortgage loans were insured, with approximately 11 percent and 23 percent of the loans, respectively, being guaranteed by the Veterans Administration;
- Both bond issues have investment criteria which requires investments to be 'A-' rated or better that will provide coverage for any potential loan losses in the event of default; and
- The indentures do not allow the issuance of additional bonds.

Additionally, the Housing Revenue bonds for Coho and Chinook Apartments bond issue ratings were increased from AA to AAA based on a rating analysis as of March 31, 1994. S&P's reasoning for the increased rating were as follows:

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<sup>12</sup>In addition to rating individual bond issuances, the rating agencies rate the overall potential long-term economic viability of the issuing organization. The "negative outlook" rating of AHFC by S&P is based on the potential depletion of the Corporation's asset base through future cash transfers to the State.

- The mortgage loan portfolios had a strong asset-to-liability position as of March 31, 1994;
- The mortgage loans were insured by the Federal Housing Administration (FHA); and
- Both bond issues had a high-quality investment criteria that will provide coverage for any potential loan losses in the event of default.

The bond rating on \$5 million of the \$143.9 million issued as Insured Mortgage Bonds, 1993 First Issue was increased from A+ to AAA because the investor who held those bonds purchased bond insurance. The \$5 million of bonds are insured by the Financial Security Assurance, Inc (FSA). According to AHFC management, the investor purchased the insurance to guarantee the interest and principal payments of the bonds, as well as against the possibility of the bonds going into default. FSA collects a fee from the investor for the insurance.

#### General obligation rating changes

Applicable ratings for AHFC general obligation debt at December 31, 1994 are as follows:

Standard and Poor's Rating Group	A+
Moody's Investors Service, Inc.	Aa
Fitch Investors Service, Inc.	AA (effective October 25, 1993)

During calendar year 1993, AHFC worked with Fitch to get their general obligation rating increased from A+ to AA. AHFC management stated that Fitch was very apprehensive about the board of director's decision to transfer \$200 million to the State on April 22, 1994.

#### Reaction of the credit rating agencies and brokerage firms to asset transfers to the State

We do not know the degree to which bond ratings will be affected by an additional withdrawal of the Corporation's assets. It is safe to assume the more assets that are withdrawn from AHFC, the greater the likelihood of a decrease in their bond rating. The market appears to have not penalized AHFC for the \$200 million transfer to the State during FY 95. However, further withdrawals of AHFC assets could lead to credit concerns by bond rating agencies and investors alike. (See Appendix C for copies of the letters from the brokerage firms of Goldman, Sachs & Co.; Lehman Brothers; Merrill Lynch; George K. Baum & Company; CS First Boston; and Dean Witter Reynolds, Inc.)

The rating agencies did not decrease AHFC's bond ratings due to the transfer, but each agency had concerns regarding the transfer of additional assets. On April 26, 1994, S&P, affirmed their outstanding bond ratings, however, they assigned a negative outlook to AHFC

*[t]he negative outlook reflects the potential depletion of AHFC's capital base, which may restrict the Corporation's ability to meet its legislative mandate of providing affordable housing for Alaska.*

On April 25, 1994, Christopher W. Martin, vice president and manager of Moody's Investors Service, Inc. wrote that Moody's

*. . . confirmed the Aa long-term debt ratings assigned to . . . (AHFC) Housing Development Bonds and General Housing Purpose Bonds. . . . Amendments to the State payment plan, particularly any increase to the authorized transfer amount, would trigger further review of the Corporation's outstanding Moody's ratings.*

On April 26, 1994, Fitch Investors Service, Inc., wrote

*. . . [AHFC] general obligation housing bond ratings are affirmed by Fitch. . . . Credit trends for all ratings are stable. . . . Credit concerns continue to focus on the real estate's market vulnerability to the state's limited, oil-dependent economic base and the potential dilution of the general housing purpose bonds debt service coverage as a result of a significant reduction in unrestricted assets and/or substantial addition of a similarly secured debt.*

Many brokerage firms advised AHFC to protect their assets if they want to maintain their bond ratings and access to investors; if not, AHFC may have their future operations impeded by the bond markets in the future.

Each of the letters, in their own way, cautioned AHFC, the legislature, and the State, to above all, maintain AHFC's and the State's credit ratings by working with the credit rating agencies and the investors before transferring additional assets of AHFC to the State. The credit rating agencies and the investors alike relied on AHFC's general account balance, and management's promise to pay in their decisions regarding the Corporation's general obligation debt.

The brokerage firm of Lehman Brothers indicated the benefits from AHFC's ability to issue general obligation debt should not be overlooked or dismissed. If the general obligation ratings of AHFC were to be downgraded or withdrawn, it would impede AHFC's ability to: raise working capital to purchase mortgage loans; accomplish tax-exempt refundings; issue debt to finance multi-family, elderly, rural, homeless and other special needs housing programs; issue debt to finance capital projects on behalf of the State; and finally the ability to attract outside capital from and establish partnerships with global financial institutions and federal agencies.

The letters from the brokerage firms noted that transferring \$535 million identified in our report dated March 14, 1994, would be viewed negatively by the credit rating agencies and the bondholders. Further, as uncertainties increase, credit ratings tend to decrease, especially when funds are transferred without regard to the credit worthiness of AHFC. They warned that negative market implications may also be experienced by other bond banks and agencies within the State.

While a few of the investment brokerage firms warned AHFC, other firms offered suggestions on how to avoid such a conflict with rating agencies and investors. The brokerage firms suggested developing a plan with cooperation between AHFC, the legislature, and the rating agencies. They indicated that the methodology used and respect provided for each group may avert any negative reaction from rating agencies and investors, and ensure AHFC and the State undisturbed access to the capital markets for future operations.

The results of our analysis of AHFC's financial statements and cash flow projections identifies approximately \$445 million of available unrestricted cash. This amount is in addition to the funds being transferred by AHFC to the State in FY 95. We recommend the potential cumulative effect of bond ratings and investor confidences be considered before transferring additional assets from AHFC for general fund purposes.

(Intentionally left blank)

## AREAS IMPACTED BY TRANSFERS OF AHFC ASSETS

The Report Conclusion has identified that while \$445 million could be available over the next two years additional transfers of assets to the state may constitute a default in the reimbursement agreement associated with variable rate bonds that were issued in November 1994. This section of the report discusses the other impacts on AHFC's existing programs if \$445 million was eventually transferred from AHFC to the State.

### Areas impacted by the transfer of corporate assets

AHFC will be impacted by the withdrawal of corporate assets. However, except for the funding of capital project demands, the primary mission of AHFC will continue to be funded with corporate assets. AHFC's capital projects include public housing renovation and maintenance, supplemental housing grants to regional housing authorities, energy and weatherization grants, and emergency housing assistance grants will need to be funded with State General Funds.

Even if assets can be transferred without causing a default, AHFC's bond ratings may be negatively impacted. This would result in an increase in the cost of funds to AHFC that would increase the interest charged to consumers on their mortgage loans. Further, cumulative withdrawals of excess assets could impair AHFC's ability to withstand a future severe economic housing downturn.

### Impact on existing AHFC programs

With certain exceptions, AHFC's accounting system and, therefore, the availability of otherwise unrestricted assets is not program specific. Various AHFC loan programs and loan features are frequently combined into a single bond fund. Generally, mortgage loans are grouped more by the taxable or tax-exempt nature of the program, rather than by individual program. This makes determining the impact of a withdrawal of corporate assets on a specific program very difficult.

Using AHFC's estimates of program demand, there should be sufficient working capital in the general account to meet expected demand after a scheduled withdrawal of an additional \$445 million. However, a substantial increase in the anticipated demand for AHFC's programs will require AHFC's board of directors to establish funding priorities for existing programs. Only in an extreme case would the residential mortgage programs be hindered.

The one program that we can specifically identify that will be impacted is the Senior Housing Bond Program. In 1990 the legislature appropriated \$10 million of the Corporation's receipts to the Senior Housing bond account<sup>13</sup>. This appropriation was intended to provide extra collateral for up to \$30 million in bonds. The extra collateral

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<sup>13</sup> This fund should not be confused with the Senior Citizens Housing Development Program which is included as an item in AHFC's capital budget projections. See Appendix B.

would be used to provide credit enhancements to improve the financial viability of the projects. These funds are currently not restricted because no bonds have been issued requiring a pledge of these assets. Additionally, AHFC has not included the use of these funds in their 10-year cash flow projections.

The complexity of the existing statutes related to this fund have limited the likelihood that any projects will be funded with these monies. The statutes pre-date the merger of AHFC with the Rural Housing Division from the Department of Community and Regional Affairs and do not provide a clear legal access to the funds by AHFC. Therefore, the balance in this fund has been included in our list of unrestricted cash available for transfer to the State.

#### Remaining unrestricted assets will be insufficient to fund capital projects

Currently the assets in AHFC's general account generate a revenue flow that provides the funding for corporate operations and capital projects. A significant reduction in the asset base in the general account will decrease the future revenue flow. While the assets that would remain after a withdrawal of an additional \$445 million would provide a sufficient revenue flow to fund operations, it is not expected to be sufficient to fund capital projects.

To compensate for the reduction in the revenue flows we eliminated the capital projects as a use of available funds. This will require these capital projects to compete for State general funds allowing the legislature to rank housing needs with other statewide capital project demands. (See Appendix B for the schedule of anticipated capital project funding requirements for FY 96 through FY 01.)

#### Repercussions on the cost of existing AHFC programs

A substantial withdrawal of corporate assets will likely have a negative impact on the Corporation's bond rating. A drop in the bond rating will result in AHFC paying a higher interest rate on their bonds. The higher bond interest costs will be passed on by AHFC to the borrowers through higher interest rates on mortgage loans.

A higher mortgage loan interest rate will limit the financial attractiveness of AHFC programs. Since there is alternative financing for many borrowers in AHFC's taxable program, there may be a natural migration of those borrowers to alternative financing options. Borrowers in other AHFC programs may not have any other financing options. Consequently, they are more likely to experience the financial impact of a drop in AHFC's credit rating through increased mortgage loan interest rates.

Much of the credit rating on AHFC's bonds is supported by the overall financial condition of the Corporation and the extra collateral pledged to individual bond issues. Withdrawal of corporate assets will limit the additional collateral that can be provided; the more assets withdrawn the greater the limitation on capital available for additional collateral.

Ability to withstand a severe economic housing downturn

Two reports on AHFC were issued in 1989 and early 1990. First, *A Special Report on the Department of Revenue Alaska Housing Finance Corporation* was issued by Legislative Audit in April 1989. Secondly, Ernst & Young issued a report in January 1990 for the Legislative Housing Finance Task Force titled *Evaluation of Policy Options Concerning the Future of the Alaska Housing Finance Corporation*.

A common objective of these reports was the evaluation of a return on the State's \$1 billion investment in AHFC without impairing AHFC's financial conditions. Both reports concluded because of the dismal real estate market conditions existing at that time, the withdrawal of corporate assets could have a serious impact on the financial health of the Corporation.

Our current evaluation concludes that \$445 million is available to be withdrawn from the Corporation's unrestricted assets. The availability of this cash is largely due to a combination of low mortgage interest rates and a relatively stable housing market. Current conditions are greatly improved over those in 1989-1990.

The withdrawal of \$445 million would seriously impair AHFC's ability to sustain another significant housing market decline. However, it is a public policy issue as to whether AHFC should maintain the reserves necessary to meet a worst case scenario in the housing market.

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## SOURCE OF FUNDS AVAILABLE

The general account is AHFC's unrestricted operating account. Our analysis of AHFC's cash flow projections shows that there is more cash and investments in the general account than is required to continue financial operations. Assets in the general account will increase with the closure of bond funds. We assumed additional assets could be obtained with a reduction in the State Mortgage Insurance Fund and the closure of the Senior Housing Bond Fund. A reduction in the use of corporate assets was assumed by elimination of AHFC's capital budget.

### Closing of bond funds

A substantial portion of the unrestricted net assets in AHFC's general account are from bond funds that have been or will likely be closed in FY 95 through FY 97. These bond funds are closing primarily as a result of accelerated prepayment of the bonds due to the significant amount of refinancing activity.

Net assets of cash, investments, and mortgage loans are transferred to the general account when a bond fund closes. The cash and investment portions being transferred are available for immediate withdrawal. However, the recycling of mortgage loans into other bond funds usually requires several months. When the loans are recycled into a bond fund, the general account receives in exchange an equivalent amount of cash which then can be withdrawn.

The schedule below shows the amount of cash and investments or mortgage loans that are expected to be transferred to the general account when the bond funds are closed.

Year the Bond Funds Close	Type of Assets Released	Amount (in Thousands)
1995	Cash/Investments Mortgage Loans	\$17,864 133,186
1996	Cash/Investments Mortgage Loans	2,578 12,210
1997	Cash/Investments Mortgage Loans	4,960 62,778
1998	Cash/Investments Mortgage Loans	-0- 14,598

The impact of lower interest rates in 1993 and 1994 was a substantial increase in refinancing activity. The residual impact of this activity is a higher than average balance of mortgage loans in the general account in early 1995. These excess loans are expected to be moved to bond funds either through recycling or the issuance of new debt. This will increase the amount of liquid assets in the general account.

### Reduction of other funds

Additional cash and investments totalling \$18 million could be moved into the general account from other funds. Once in the general account, these funds would be available for withdrawal.

1. \$6 million from a reduction in the State Insurance Mortgage Fund - Currently the reserves in this fund exceed both the statutory requirement and AHFC's annually projected reserve requirement. The reduction in this fund brings the reserve balance down to the AHFC calculated estimate, which is higher than the statutory requirement.
2. \$12 million from the elimination of the Senior Housing Bond Fund - In 1990 the legislature appropriated \$10 million of AHFC corporate receipts to the Senior Housing Bond account. Currently there are no commitments on any of these monies as previously discussed in the Report Conclusions section of this report. Therefore, we have included them as available cash for withdrawal.

### Elimination of the capital budget

AHFC's 10-year cash flow projections include capital projects request of \$70 to \$85 million per year of which \$50 to \$60 million is to be funded with corporate receipts. In determining the amount of assets available, we eliminated AHFC's capital budget. It is not our intent to recommend that AHFC's capital budget not be approved, rather that their projects compete with other general fund projects for funding.

APPENDICES

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## APPENDIX A

### Schedule of AHFC Programs

The following is a matrix of the programs administered by AHFC. The programs have been grouped by the division in which the program is administered. The definitions of the abbreviations are listed on the last page of Appendix A.

#### Mortgage Division

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	TAX STATUS OF RELATED AHFC DEBT
Taxable	AS 18.56.088 Administrative procedure; AS 18.56.098 SMPP; AS 18.56.091 HOF	This program has no income limits for borrowers; 30 year fixed rate (may go down to 16 years for conventional loans); 10% down payment for single-family and duplex units, 20% down payment for tri-plex and four-plex units; may use FHA/VA guarantee to reduce down payment; qualifying assumptions are allowed; and moderate and low income borrowers may receive HOF assistance to subsidize interest on the first \$50,000, if the cost of funds exceeds 10%.	Taxable
Tax-Exempt First Time Homebuyer	AS 18.56.088 Administrative procedure; AS 18.56.098 SMPP; AS 18.56.091 HOF	This programs federal regulations set the income limits, maximum acquisition cost, and require no ownership of dwelling for 3 years prior; 30 year fixed rate (may go down to 16 years for conventional loans); 10% down payment for single-family and duplex units; may use FHA/VA guarantee to reduce down payment; qualifying assumptions are allowed, but buyer must meet tax-exempt loan eligibility requirements; and moderate and low income borrowers may receive HOF assistance to subsidize the interest on the first \$50,000, if the cost of funds exceeds 10%. Qualified home improvement and qualified rehabilitation loans may be made, if they are secured with a second lien on the mortgaged property. This program is not in use.	Tax-Exempt
Affordable Home Ownership Guaranteed Loan Program (generally know as the 5% Loan Program)	AS 18.56.088 Administrative procedure; AS 18.56.089 (b1C) -Compliance with Executive Budget Act; AS 18.56.090 General Powers	This program is for the purchase of single family units by a low-to-moderate income borrower whose loan is insured by FHA, VA, or FmHA. The income limitation was set at 100% of median income as established annually by HUD and adjusted by area and family size. The interest rate on the loans was set at 5%. Original board approval in November 1994 allocated \$50 million to this program, of which \$11.5 million was set aside for rural areas (small communities) of the State. Due to the overwhelming demand, the board allocated an additional \$65 million to this program, to cover loans in process with lenders that were over and above the original allocation.	These loans are fully funded from arbitrage earnings.

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Mortgage Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	TAX STATUS OF RELATED AHFC DEBT
Veterans Mortgage	AS 18.56.088 Administrative procedure; AS 18.56.098 SMPP; AS 18.56.091 HOF	This program has federal restrictions that require the borrower to be a "qualified veteran;" 30 year fixed rate (down to 16 years for conventional loans); 10% down payment for single-family and duplex units, 20% down payment for tri-plex and four-plex units; may use FHA/VA guarantee to reduce down payment; qualifying assumptions are allowed, but buyer must meet VMP requirements; and moderate and low income borrowers may receive HOF assistance as with the Taxable and the Tax-Exempt Loan Programs.	Tax-Exempt
Mobile Home	AS 18.56.088 Administrative procedure; AS 18.56.090 General Powers; AS 18.56.098 SMPP; AS 18.56.099 Powers of corporation to deal in mortgage loans	This program provides loans for Type I and Type II Mobile Homes; Type I 30 years; Type II are new units and the terms are - 10 years for single wide, 14 years for double wide; while used units terms are - 7 years for single wide, 10 years for double wide, however, the loan can not exceed 70% of the remaining economic life; interest rates are the same as for the Taxable Program; 15% down payment; may use VA guarantee to reduce down payment; with Type II Mobile Homes, moderate and low income borrowers may receive HOF assistance as with the Taxable and Tax-Exempt Loan Programs.  (Type I Mobile Home Loans may be made under any of the three programs above.)	Type II are Taxable only. Type I are Taxable or Tax-Exempt
Second Mortgage	AS 18.56.088 Administrative procedure; AS 18.56.96 Limitation on power to make or purchase mortgage loans	This program provides for Health and Safety Repairs - for property that is already financed by AHFC including Type I & II mobile homes. For improvements necessary for health and safety issues, e.g., replacement or repair of septic and/or water systems, foundation or structural repair, terms may vary with loan amounts to a maximum amount of \$20,000; total amount of loans purchased under this program was limited to \$5 million. Home Improvement loans are for permanent improvements to mortgaged properties including Type I mobile homes; terms will vary with loan amount, which is limited by a loan-value ratio. Purchase - for purchase of a single-family or duplex units, including Type I mobile homes, subject to an existing mortgage; loan terms and amounts are same as those for home improvement loans; loans may be eligible for HOF assistance.	N/A
Non-Conforming	AS 18.56.088 Administrative procedure; AS 18.56.1C. Non-conforming housing loan program	This program provides loans for the purchase or construction of non-conforming single-family and duplex units (construction loans can only be made, when construction of conforming house is not possible); interest rate is equal to the taxable rate + ¼ of 1%; borrower eligibility and loan terms are the same as for SMPP.	N/A

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Mortgage Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	TAX STATUS OF RELATED AHFC DEBT
Refinance	AS 18.56.088 Administrative procedure; AS 18.56.098 SMPP	This program will refinance any loan made or purchased under an AHFC program; loan payments must be current; mortgage loans are secured by a first or second deed of trust; if applicable, HOF subsidy may continue; refinance loan, except HOF and mobile home Type II, amounts may include costs of improvements.	Taxable for Refinance and Non-AHFC Loans
Non-AHFC Loans	Same	Refinance loans not owned by AHFC; other requirements similar to the above refinance program.	
Streamlined	Same AS 18.56.108 SRP	Refinance loans owned by AHFC, except those made under the rental refinance program, REO Financing program, or the rural non-owner occupied loan program; includes mobile home Type II loans; does not include costs of improvements.	Streamline can be Taxable or Tax-Exempt
REO Financing	AS 18.56.088 Administrative procedure; AS 18.56.090 General powers	This program makes loans that provide financing for the sale of properties owned by AHFC; may be a second home loan or non-owner occupied home loan; loan-to-value ratio up to 95% on single-family or duplex units, up to 90% on tri-plex and four-plex units, and non-owner occupied and second home loans; term is maximum remaining life of unit less 5 years or 20 years whichever is less; and qualifying assumptions are allowable.	N/A
Condominium Stabilization	AS 18.56.088 Administrative procedure; AS 18.56.090 General powers	This program purchases loans to provide low interest rate financing for AHFC owned condominium and PUD units; if the unit is owner-occupied; the borrower has no other loans with AHFC; loan-to-value up to 95%; and qualifying assumptions are allowable. No longer an active program.	No specific debt issued for this program
Association Loans	AS 18.56.088 Administrative procedure; AS 18.56.090 General powers	This program makes loans to homeowners' associations for common area improvements, if there is a health or safety issue on the property with regard to the residents or the structural integrity of the buildings; maximum loan amount is the lesser of 80% of the costs or \$5,000 for each unit served by the common area in need of improvement; terms to 10 years. Only 1 loan issued to an association in Juneau.	N/A
Multi-Family	AS 18.56.088 Administrative procedure; AS 18.56.090 General powers; AS 18.56.099 Powers of corporation to deal in mortgage loans	This program makes loans to individuals, partnerships, joint-ventures, for-profit and non-profit corporations, regional housing authorities, or state or municipal governmental agencies; for-profit corporations have loan amount limitations, while other borrowers may be loaned higher amounts; terms to 30 years; interest rate subsidies and grants may be available with loan.	Taxable or Tax-Exempt

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Mortgage Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	TAX STATUS OF RELATED AHFC DEBT
Multi-Family Participation Loans	AS 18.56.088 Administrative procedure; AS 18.56.090 General powers; AS 18.56.099 Powers of corporation to deal in mortgage loans	This is a proposed program. AHFC board of directors approved the program's regulations in 1994. The program guidelines have not yet been written and, therefore, no loans have been made under the program. Lenders under the program will retain a 20% interest in the loan, while AHFC will purchase the other 80% interest.	Taxable
Special Needs and Congregate Housing Loans	AS 18.56.088 Administrative procedure; AS 18.56.090 General powers; AS 18.56.099 Powers of corporation to deal in mortgage loans	This program can make, participate, or purchase loans to acquire, construct, rehabilitate, improve, or refinance special needs or congregate housing for low to moderate income persons or housing in remote, underdeveloped, or blighted areas; the borrowers and terms are same as under the Multi-Family program; acquisition and refinance loan amounts are limited and must not exceed an acceptable level of risk; construction, rehabilitation, or improvement loans can be made up to 80% of the appraised value or allowable project costs.	Taxable or Tax-Exempt  Some projects are also funded with arbitrage
Loans to Sponsors	AS 18.56.088 Administrative procedure; AS 18.56.090(b)(1) General powers	This program makes loans to sponsors who in turn use the proceeds to make loans to borrowers under their program(s), within AHFC guidelines, for the purpose of (1) providing housing loans and loans to improve housing for low or moderate income persons or in remote, underdeveloped, or blighted areas and (2) paying the sponsor's program administration costs; borrower eligibility is the same as under the Multi-Family program, except for-profit corporations; interest rate 0%; terms to 35 years; the loan types can be revolving and/or variable payment; the collateral requirements would be, e.g., assignment of loans made by the sponsors to borrowers.	Projects funded with arbitrage
Low -Income Housing Tax Credit	AS 18.55.100 (a) Powers of corporation; AS 18.55.110 Cooperation with and of federal government; AS 18.55.240 Power of corporation to obtain federal aid and cooperate; AS 18.55.420 Regulations; allocation of units and projects; AS 18.56.088 Administrative procedure	This program provides for qualified low-income building in qualified low-income housing projects as defined in 26 U.S.C. Section 42(c) (2) and (g) eligible for tax credits. AHFC allocates the State's annual housing credit ceiling amount based on a qualified allocation plan, which is developed by AHFC, under the requirements specified in the federal regulations. This program began in 1987.	N/A

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Mortgage Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	TAX STATUS OF RELATED AHFC DEBT
Senior Housing	AS 18.56.088 Administrative procedure; AS 18.56.090 General powers; AS 18.56.099 Powers of corporation to deal in mortgage loans; AS 18.56.700-799 Senior Housing Office; AS 18.56.800-810 Senior Citizens Housing Development Fund	This program can make, participate in making, purchase or participate in purchasing loans for the acquisition, construction, improvement, or rehabilitation of senior housing, including operational apparatuses; eligible borrowers include individuals, partnerships, joint ventures, for-profit and non-profit corporations, regional housing authorities, and local governments; there are maximum loan limits for single-family, duplex, tri-plex, and four-plex projects; the terms of projects - permanent financing up to 30 years, construction or rehabilitation financing up to 18 months, improvement financing up to 12 months; and terms for housing to 30 years and 15 years for improvement loans.	Taxable or Tax-Exempt  Only 1 taxable bond issued for Chester Park Project
Affordable Housing Enhanced Loan	N/A	This program provides funding from the Federal Indian housing program or other funds such as the assets from a non-profit for which regional housing authorities or non-profits may apply. Currently, only Cook Inlet Regional Housing Authority (CIRHA) administers this program. Borrowers may apply for any of AHFC's loan programs; they are only required to put 3% down payment; and CIRHA provides the remaining monies through grants and 0% interest rate loans for a second deed of trust to bring the loan-to-value to 75% for AHFC to purchase.	Taxable or Tax-Exempt
Home Owners' Assistance	AS 18.56.088 Administrative procedure; AS 18.56.108 Simplified refinancing mortgage loan purchase program	This program was created to modify or refinance existing loans to provide assistance to delinquent borrowers and to allow current borrowers to obtain more favorable terms to prevent further delinquencies. The last loan approved under the HOAP was in 3/91.	Taxable

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

**Research and Rural Development Division**

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	FUNDING SOURCE
Rural Owner Occupied	AS 18.56.088 Administrative procedure; AS 18.56.400 Powers of corporation related to housing assistance; AS 18.56.420 HALF; AS 18.56.440 Limitations on use of HALF; AS 18.56.580 Loans for nonowner occupied housing	This program provides financing for qualified borrowers for the construction, purchase, or rehabilitation of rural owner-occupied single-family and duplex units. There are no income limits; maximum 30 years or economic life of the unit; 10% down payment; and the interest rate is 1% lower than most current bond sale or urban AHFC rate, if there are no recent bond sales to determine rate.	HALF
Nonowner Occupied	AS 18.56.088 Administrative procedure; AS 18.56.400 Powers of corporation related to housing assistance; AS 18.56.420 HALF; AS 18.56.440 Limitations on use of HALF; AS 18.56.580 Loans for nonowner occupied housing	This program provides financing for qualified borrowers for the construction, rehabilitation, or purchase of 1 to 8 rural nonowner occupied rental housing units in a single community or specified area outside a community. They may finance up to 16 units, if extraordinary need(s) can be demonstrated. There are no income limits; maximum 30 years or economic life; 20% down payment; and the interest rate is not to exceed 10.5%.	HALF
State Veteran's Interest Rate Preference	AS 18.56.098 (g)(1) Special mortgage loan purchase program	This program provides a 1% lower interest rate on the first \$30,000 of a mortgage loan to qualified borrowers. May be applied to any owner-occupied program offered through the division. This program was phased out and has had no activity since 1993.	HALF
Home Ownership Assistance Fund Loans (HOAF)	AS 18.56.088 Administrative procedure; AS 18.56.400 Powers of corporation related to housing assistance; AS 18.56.430 HOAF	This program subsidizes a portion of a monthly mortgage payment for lower and moderate income borrowers. Can subsidize down to a 6% interest rate. Rural owner occupied single-family units only. First deeds of trust only. The loan is an adjustable rate mortgage with an annual interest rate adjustment based on a review of the borrowers ratio of income to assets, with the interest rate not to exceed the original rate of the loan, nor to go below 6% rate.	HALF

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Research and Rural Development Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	FUNDING SOURCE
Building Materials	AS 18.56.088 Administrative procedure; AS 18.56.400 Powers of corporation related to housing assistance; AS 18.56.420 HALF; AS 18.56.440 (2)(A) Limitations on use of HALF; AS 18.56.580 Loans for nonowner occupied housing	This program allows for loans to a maximum of \$45,000 or 80% of the appraised value of a house, if the house is pledged, or 90% of the value of other property pledged. The loan term may be for up to 15 years maximum at an interest rate that is 1% less than the most recent AHFC taxable bond issue. Security can be either a first or second deed of trust.	HALF
Renovation Loans	AS 18.56.088 Administrative procedure; AS 18.56.400 Powers of corporation related to housing assistance; AS 18.56.420 HALF; AS 18.56.440 Limitations on use of HALF; AS 18.56.580 Loans for nonowner occupied housing	This program is used for the renovation, rehabilitation, and improvement of an existing residence. Renovation of a purchased residence. Funds are available for rural owner-occupied and rural nonowner-occupied residences. The program is for HOAF borrowers with a first deed of trust only. The term of the loan is for a maximum of 30 years; the interest rate equals the current rural rate. Program used often when interest rates are going down because loans cannot be refinanced under statutes and this program rolls old and new loans together at new (lower) interest rates.	HALF
Second Mortgage Program	AS 18.56.420 HALF; AS 18.56.440 Limitations on use of HALF	This program can accept a second deed of trust for the purchase of single-family or duplex unit. The second deed of trust must be for the renovation, rehabilitation, and improvement of existing owner-occupied or rural nonowner-occupied residences. Loans are made from HOAF to borrowers as a first deed of trust only. The maximum loan \$45,000; with a term to a maximum of 15 years; with an interest rate equal to that established under AS 18.56.440. The interest rate for subsidized loans will vary.	HALF
Turnkey III Purchase Program	AS 18.56.088 Administrative procedure; AS 18.56.400 Powers of corporation related to housing assistance	This program provides loans for purchasing and/or rehabilitating homes built under the HUD Home Ownership Opportunity Program for low-income families and is limited to no more than 30 homes in a given fiscal year. Criteria for this program are the same as for the rural owner-occupied programs. AHFC can not finance the same property more than once in 5 years. This program is being phased out.	HALF

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Research and Rural Development Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	FUNDING SOURCE
Building Material Loan Program	AS 18.56.088 Administrative procedure; AS 18.56.400 Powers of corporation related to housing assistance; AS 18.56.420 HALF; AS 18.56.440 Limitations on use of HALF; AS 18.56.580 Loans for nonowner occupied housing	This program is for materials only and not for labor for the primary residence. However, the program can be used for water and sewer hookup and repair. The maximum loan amount is \$15,000; with a maximum term of 15 years; there are no income limits; and the interest rate equals rural owner-occupied rate.  This program <u>started 8/93</u> and focuses on small loans in villages. Deeds of trust (may or may not be the first deed) or substitution of collateral is required, e.g., fishing vessels, etc. AHFC plans to limit outstanding loan balance to \$5 million because of the relative loan risk.	HALF
FmHA Guaranteed and Insured Rural Housing Loan Program	AS 18.56.088 Administrative procedure; AS 18.56.400 Housing Assistance through AS 18.56.600 Low Cost and Low Income Multiple Housing; AS 18.56.440 Limitations on use of housing assistance loan fund	This program assists eligible low and moderate income borrowers in obtaining adequate but modest, decent, safe, and sanitary rural dwellings. The program's income limit is 115% of the HUD median income level; with a 3% down payment; and FHA and VA guaranteed. The program allows for participation in HUD 184 Loan Guarantees for the Indian Housing Program. The program started 1/1/93 with regulatory changes approved by the board on 1/20/95.	HALF
Public Service Rental Housing Program	AS 18.56.088 Administrative procedure; AS 18.56.400 Powers of corporation related to housing assistance; AS 18.56.580 Loans for nonowner occupied housing	This is a new program with regulations that were recently adopted by the board of directors on 1/20/95. The program provides for the purchase of, or to make a direct loan for, the acquisition, renovation, or construction of nonowner occupied property with the occupancy restricted to public service individuals. The program is the same as the nonowner occupied program, except for the interest rate (which is the same as the owner-occupied program) and the loan amount is limited to 100% of costs, that are not to exceed 90% of the appraised value.	HALF
Supplemental Housing Development	AS 18.55.998 Supplemental housing development grants; AS 18.56.088 Administrative procedure	This program provides a 20% match of corporate receipts with HUD funds for grants to regional housing authorities, so they may construct affordable housing in rural Alaska. The program is used mostly for sewer and electrical connections, road access, and energy efficiency enhancements.	Corporate Receipts and HUD Funding

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Research and Rural Development Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	FUNDING SOURCE
Energy Standards	AS 18.56.088 Administrative procedure; AS 18.56.096(c) Limitation on power to make or purchase mortgage loans; AS 46.11.040 Applicability of thermal and lighting energy standards to residential buildings; AS 46.11.900 Definitions	This AHFC program allows AHFC to implement minimum energy efficiency standards for homes that are built after 1/1/92 and financed with state funds.	N/A
Energy Resource & Information Center (ERIC)	General powers of AHFC	This program provides a library for information on energy efficiency and conservation and renewable or alternative energy sources.	Corporate Receipts

Planning and Program Development Division

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	FUNDING SOURCE
Low Income Weatherization Assistance Program	AS 18.56.078 Administrative procedure; AS 18.56.850 Home energy conservation and weatherization program	This program provides grants to local non-profits to make the most cost-effective energy improvements to homes for low income families.	USDOE Funding; USDHHS pass through funds from DHSS/DPA; and Corporate Receipts
Warm Homes: Alaska Craftsmen Home Program	AS 18.56.850 Home energy conservation and weatherization program	This program provides corporate receipts for grants to Alaska Craftsmen, Inc., so they can train builders in northern building science. Course attendance is required by the Alaska Department of Commerce and Economic Development, and applicants are required to take the course prior to obtaining a residential home builders license.	Corporate Receipts
Warm Homes: Energy Rated Homes of Alaska	AS 18.56.850 Home energy conservation and weatherization program	This program provides a uniform method of auditing, assessing, and rating the energy efficiency of a residential home. Documented energy efficiency is credited to the mortgage loan.	Corporate Receipts

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Research and Rural Development Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	FUNDING SOURCE
Warm Homes: Home Energy Loan Program	AS 18.56.088 Administrative procedure; AS 18.56.850 Home energy conservation and weatherization program	This program is for people who borrow to make energy rating improvements. There are two types of subsidies (1) subsidizes a portion of the interest on a consumer loan for the purchase of eligible energy efficiency products and (2) provides a buy-down of a mortgage on a new dwelling or loan for an improvement of an existing dwelling. The program provides a grant to a bank on behalf of the borrower. Subsidies range from \$1900 - \$2500 or 15% of the loan amount whichever is less.	Oil overcharge funds
Warm Homes: Home Energy Rebate Program	AS 18.56.088 Administrative procedure; AS 18.56.850 Home energy conservation and weatherization program	This program is for people who do not borrow to make energy rating improvements. The program provides a rebate to homeowners ranging from \$800 - \$2000. Improvements include added insulation, high efficiency boilers, water heaters, furnaces, windows, caulking, and weatherstripping.	Oil overcharge funds
Energy Efficient Loan Program	Federal Regulations	Alaska was selected as one of five states to participate in this program. FHA allows borrowers to add up to \$8,000 to their mortgage loan to make energy improvements recommended by a home energy rater. This program is for FHA insured loans. The program was implemented in FY 94.	Does not require funding
Business Energy Assistance Team (BEAT)	General powers of AHFC	This program provides grants to utility companies to assist small businesses in reducing their electrical usage.	Oil overcharge funds
Senior Citizens Housing Development Grants	AS 18.56.088 Administrative procedure; AS 18.56.810 Senior citizens housing development	Under this program, AHFC can grant money from the Senior Citizens Housing Development Fund to eligible applicants for developing senior housing, only when adequate funding is not available from other sources.	Corporate Receipts
Multifamily Affordable Housing Development Grants	AS 18.56.088 Administrative procedure; AS 18.56.650 Low cost and low income multiple family housing development fund and grants	This program provides grants to eligible applicants for developing affordable multi-family housing to low-income households. This program is not currently used.	N/A

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Research and Rural Development Division (continued)

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	FUNDING SOURCE
Northwest Pilot Home Energy Rating Program	General powers of AHFC	This program began prior to the merger of ASHA into AHFC. When the program began under the Alaska Department of Community and Regional Affairs, they received USDOE funds for the pilot program. The pilot program was targeted to the Pacific Northwest area. Alaska chairs the related task force and is developing a curriculum for appraisers and realtors on how to market and value energy efficient features of homes.	USDOE

Public Housing Division

PROGRAM NAME	STATUTORY AUTHORITY	DESCRIPTION	FUNDING SOURCE
SF-210 Low-Rent Public Housing Program	None	This program provides funding for 28 housing projects that are owned and operated by the Public Housing Division. The financing was provided through the issuance of bonds, loans from the Federal Financing Bank, and HUD. HUD provides four kinds of financial assistance for this program: funding for development costs, annual contributions for operating subsidy, annual contributions for debt service, and capital improvement funds.	Corporate Receipts and HUD Funding
SF-329 Turnkey III Public Housing Program	None	This program provides funding for the development of rural single family dwellings provided through loans from HUD. HUD provides the annual debt service contributions. 48 home buyers are currently under this lease-option program in Bethel and Nome. The home buyer pays the monthly payment to AHFC, which is split between the Earned Home Payments Account (EHPA) and the Non-routine Maintenance Reserve Account (NRMR). Ownership transfers to home buyer when the EHPA + NRMR = purchase price, or when the home buyer gets other financing.	No new activity for several years
S-5 Mutual Help Indian Housing Program	None	This program provides 200 units in 10 communities in rural Alaska. Funding for the development of the 200 units was provided through loans from HUD, which HUD provides the annual debt service contributions. Residents provide sweat equity and a signed promissory note for a portion of the cost. The underlying loans from HUD were forgiven in the 60's. However, AHFC still has interest in administrative fee with regard to the 90 units that still have outstanding promissory notes.	No new activity for several years

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Public Housing Division (continued)

<b>PROGRAM NAME</b>	<b>STATUTORY AUTHORITY</b>	<b>DESCRIPTION</b>	<b>FUNDING SOURCE</b>
Section 8 Existing Housing Certificate Program	None	This program provides funds for eligible low-income families, so they can directly contact landlords for rental housing that has fair market value rent for their family size as determined by HUD. Eligible tenant's must pay the greater of 30% of their Adjusted Gross Income (AGI) or 10% of their gross income. The rest of the rent is paid by AHFC directly to the landlord from HUD funds.	HUD Funds
Section 8 Existing Housing Voucher Program	None	This program provides funds for eligible low-income families, so they can directly contact landlords for rental housing. The family may rent any size unit for an amount established by the landlord. Eligible tenant's may determine the portion of families income to apply to rent, within limits. AHFC pays the rent subsidy from HUD funds directly to the landlords for fair market value of the rent less the greater of 30% of the eligible tenant's AGI or 10% of the eligible tenant's gross income.	HUD Funds
Section 8 New Construction Program	None	This program has 5 apartment housing projects (285 units) in 4 communities. The projects were constructed by ASHA. They were financed with funds received from loans from the State, and they are secured by deeds of trust on the land, buildings, and equipment. All of the loans from the State have been paid in full. There are rental subsidy payments received from HUD under the HAP program. The tenant's portion of rent equals the greater of 30% of their AGI or 10% of their gross income. The units rents are set jointly by HUD and AHFC.	HUD Funds
Section 8 Additional Assistance Program (Wrangell)	None	This program is a low-rent housing project located in Wrangell, which receives rental assistance from HUD. The project was financed by a loan from a commercial financial institution and collateralized by a deed of trust for the land, building, and equipment, as well as being insured by FHA through the HUD Multi-Family Rental Housing for Moderate-Income Families Program. The rental subsidy payments are received by AHFC in accordance with the HAP program. The tenant's portion of rent is equal to the greater of 30% of their AGI or 10% of their gross income.	HUD Funds
Construction Grant-in-Aid Mental Housing Program	None	This program provides buildings that are owned by AHFC and leased for a reduced amount, e.g., \$1 to independent non-profit mental health groups. DHSS/DMHDD provides funding to the non-profits for the program expenses.	N/A

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Public Housing Division (continued)

<b>PROGRAM NAME</b>	<b>STATUTORY AUTHORITY</b>	<b>DESCRIPTION</b>	<b>FUNDING SOURCE</b>
Multi-Family Rental Housing	None	This program was established in early 80s by ASHA. ASHA issued tax-exempt multi-family housing revenue bonds that provided monies to make FHA insured mortgages to 7 partnerships for the development of multi-family rental housing units in Juneau and Anchorage. There are still 2 bond issues outstanding as of 9/30/94: Coho Park Apartments for \$2.3M and Chinook Apartments for \$2.5M.	N/A
State Lease Building Program	None	This program was used in 1966-1969 and 1971-1974 by ASHA to issue bonds to finance construction and acquisition of public buildings for lease to the state. Total outstanding balance for these bond issues is \$1.0 million as of 9/30/94.	N/A
Family Self-Sufficiency Program	None	This is a HUD grant program that ASHA applied for prior to their merger with AHFC. The program was implemented in FY 93, and provides housing assistance, education, and training opportunities to eligible persons to assist them in obtaining full-time employment.	HUD Funds
Shelter Plus Care Program	None	This program provides rental assistance for homeless people with disabilities. A match for support services is required for the value of the rental assistance. The match is provided by Alaska Aids Assistance Association and South Central Counseling Center (an Anchorage Community Mental Health Center). These funds were applied for by the Planning and Program Development Division (PPDD) by DHSS and will probably be administered by the Public Health Division (PHD) of DHSS.	HUD Funds
Drug Elimination Program	None	This program provides additional funds for police patrols at public housing sites, referral services, and employment training for public housing residents and children's activities. The funds were applied for by PPDD and administered by PHD.	HUD Funds
HOME Program	None	This is a HUD formula grant program. AHFC and the Municipality of Anchorage (MOA) are the official recipients for separate jurisdiction. PHD administers only a portion of the funds through a housing "coupon" program which is modeled after Section 8 housing program. In Anchorage, the coupon program is administered on behalf of MOA.	HUD Funds
Family Investment Center	None	This program provides capital improvement money and supportive services to support FSS initiatives.	HUD Funds
Youth Sports	None	This program is similar to the Drug Elimination Grant Program, and used for sports, education, and leadership training for young people living in public housing.	HUD Funds

**APPENDIX A**  
(Continued)

Schedule of AHFC Programs

Public Housing Division (continued)

<b>PROGRAM NAME</b>	<b>STATUTORY AUTHORITY</b>	<b>DESCRIPTION</b>	<b>FUNDING SOURCE</b>
Gateway Literacy	None	This program is for literacy, where English is used as a second language and for training and computer literacy for families in assisted housing. Used in concert with FSS.	Alaska Department of Education
HUD Comprehensive Grant Program	None	This is a Federal grant program from HUD that provides Public Housing Authorities with funds each year to renovate and modernize public housing units. Funds are also provided for administrative expenses, tenant-education projects, drug elimination and safety projects, and management improvements.	HUD Funds
Public Housing Energy Performance Contracting Program	None	This program provides Corporate (AHFC) funds to upgrade public housing residences through energy performance-based contracts. To provide an incentive to make energy-efficiency improvements. HUD will allow AHFC to retain the savings (difference between past utilities vs current utilities cost after improvements) for a period of 12 years. The savings will be used in future years to fund more energy efficient improvements.	Corporate Receipts

<u>Abbreviation</u>	<u>Definition</u>
ASHA	Alaska State Housing Authority (merged with AHFC in 1992).
DHSS	Alaska State Department of Health and Social Services.
DMHDD	Division of Mental Health and Developmental Disabilities (a division of DHSS)
DPA	Division of Public Assistance (a division of DHSS).
FHA	Federal Housing Authority.
FmHA	Farmers Home Administration's Guaranteed Rural Housing Loan Program.
FSS	Family Self-Sufficiency Program (a HUD program).
HALF	Housing assistance loan fund.
HAP	United States Department of Housing and Urban Development, Housing Assistance Payments Contract.
HOAF	Home ownership assistance fund.
HOAP	Home owners assistance program.
HOF	Home ownership assistance program.
HUD	United States Department of Housing and Urban Development.
PUD	Planned Unit Development.
REO	Real Estate Owned (by AHFC).
SMPP	Special mortgage loan purchase program
SRP	Simplified refinancing mortgage program loan purchase program.
U.S.C.	United States Code.
USDHHS	United States Department of Health and Human Services.
USDOE	United States Department of Energy.
VA	Veterans Administration.
VMP	Veterans Mortgage Program.

## APPENDIX B

### Capital Budget Estimations for FY 96 through FY 01

PROGRAM NAME	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
<b>Mortgage Division</b>						
Multi-Family, Special Needs, and Congregate Housing	\$2,500,000 c <sup>14</sup> -0- f	\$2,750,000 c -0- f	\$3,025,000 c -0- f	\$3,327,500 c -0- f	\$3,660,250 c -0- f	\$4,026,275 c -0- f
Community Service Down Payment Coupons Program <sup>15</sup>	60,000 c -0- f	66,000 c -0- f	72,600 c -0- f	79,860 c -0- f	87,846 c -0- f	96,631 c -0- f
<b>Research and Rural Development Division</b>						
<b>Supplemental Housing Development</b>						
Grant Match for Regional Housing Authorities	10,000,000 c -0- f	10,000,000 c -0- f	11,000,000 c -0- f	12,100,000 c -0- f	13,310,000 c -0- f	14,641,000 c -0- f
Association of Alaska Housing Authorities	175,000 c -0- f	175,000 c -0- f	192,500 c -0- f	211,750 c -0- f	232,925 c -0- f	256,218 c -0- f
Alaska Native Health Board	60,000 c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f
Statewide Research & Testing <sup>16</sup>	100,000 c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f
<b>Planning and Program Development Division</b>						
<b>Low Income Weatherization Assistance Program</b>						
Residential Energy Rehabilitation	8,500,000 c 1,800,000 f	10,500,000 c 1,800,000 f	10,000,000 c 1,700,000 f	10,000,000 c 1,700,000 f	9,600,000 c 1,700,000 f	8,500,000 c 1,700,000 f
<b>Warm Homes for Alaskans</b>						
Alaska Craftsmen Home Program	300,000 c -0- f	400,000 c -0- f	400,000 c -0- f	400,000 c -0- f	350,000 c -0- f	300,000 c -0- f
Energy Rated Homes of Alaska	300,000 c -0- f	400,000 c -0- f	400,000 c -0- f	400,000 c -0- f	350,000 c -0- f	300,000 c -0- f
Home Energy Loan Program	2,000,000 c -0- f	-0- c 0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f
Stripper Oil Overcharge Settlement Plan <sup>17</sup>	2,000,000 c -0- f	2,000,000 c -0- f	2,000,000 c -0- f	2,000,000 c -0- f	1,000,000 c -0- f	-0- c -0- f
Senior Citizens Housing Development Grants	4,000,000 c -0- f	4,400,000 c -0- f	4,840,000 c -0- f	5,324,000 c -0- f	5,856,400 c -0- f	6,442,040 c -0- f

<sup>14</sup> The "c" indicates this project will be funded with corporate receipts and the "f" indicates the funding will be from a federal source.

<sup>15</sup> This program is still in the conceptual stage. The program would be similar to the HUD Self-Efficiency Program that may include a feature to allow community service work hours to be credited against the down payment requirement for the purchase of a home. Low-income borrowers would be targeted.

<sup>16</sup> These projects will be coordinated and integrated with public housing, weatherization, and supplemental housing programs for regional housing authorities that are already in place.

<sup>17</sup> Programs contained in this U.S. Department of Energy plan are: Home Energy Loan Program, Home Energy Rebate Program, and the Energy Rated Homes of Alaska.

**APPENDIX B**  
(Continued)

Capital Budget Estimations for FY 96 through FY 01

PROGRAM NAME	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Federal Competitive Grants - Match <sup>18</sup>	3,100,000 c 3,400,000 f	3,410,000 c 3,740,000 f	3,751,000 c 4,114,000 f	4,126,100 c 4,525,400 f	4,538,710 c 4,977,940 f	4,992,581 c 5,475,734 f
Emergency Repair/Replacement Housing Grants to Individuals	500,000 c -0 f	625,000 c -0 f	781,250 c -0 f	976,563 c -0 f	1,220,703 c -0 f	1,525,879 c -0 f
Emergency Housing Assistance Program	250,000 c -0 f	275,000 c -0 f	302,500 c -0 f	332,750 c -0 f	366,025 c -0 f	402,628 c -0 f
Pre-Development Grant Program <sup>19</sup>	500,000 c -0 f	500,000 c -0 f	500,000 c -0 f	500,000 c -0 f	500,000 c -0 f	500,000 c -0 f
Other Competitive Non-Federal Grants <sup>20</sup>	325,000 c -0 f	357,500 c -0 f	393,250 c -0 f	432,575 c -0 f	475,833 c -0 f	523,416 c -0 f
<b>Public Housing Division</b>						
HOME Program - Grant Match	750,000 c 3,000,000 f	750,000 c 3,000,000 f	750,000 c 3,000,000 f	750,000 c 3,000,000 f	750,000 c 3,000,000 f	750,000 c 3,000,000 f
HUD Comprehensive Grant Program	-0 c 3,800,000 f	-0 c 4,000,000 f	-0 c 4,000,000 f	-0 c 4,400,000 f	-0 c 4,840,000 f	-0 c 5,324,000 f
Public Housing Energy Performance Contracting Program	2,100,000 c -0 f	2,000,000 c -0 f	2,000,000 c -0 f	2,000,000 c -0 f	2,000,000 c -0 f	1,000,000 c -0 f
Federal Competitive Public Housing Grants <sup>21</sup>	1,213,000 c 2,277,000 f	1,334,300 c 2,504,700 f	1,467,730 c 2,755,170 f	1,614,503 c 3,030,687 f	1,775,953 c 3,333,756 f	1,953,549 c 3,667,131 f
<b>SF-21 Low Rent Public Housing Program</b>						
Cedar Park Reconstruction	2,716,600 c 5,249,100 f	-0 c -0 f	-0 c -0 f	-0 c -0 f	-0 c -0 f	-0 c -0 f
Public Housing Support Facilities	300,000 c -0 f	300,000 c -0 f	300,000 c -0 f	350,000 c -0 f	385,000 c -0 f	423,500 c -0 f
Spruce Park Renovation	-0 c -0 f	7,353,600 c -0 f	-0 c -0 f	-0 c -0 f	-0 c -0 f	-0 c -0 f
Development of 50 New Units	-0 c -0 f	-0 c -0 f	3,684,700 c 4,950,800 f	4,053,170 c 5,445,880 f	4,458,487 c 5,990,468 f	4,904,336 c 6,589,515 f

<sup>18</sup>Grants to assist public and private non-profit organizations with the cost of acquiring and/or rehabilitating existing buildings, and providing supportive services and/or rental assistance to homeless persons, persons with disabilities, and other special-needs populations. This program is an entitlement program funded by HUD through block grants to the states. AHPC will provide the match funds required to expand the benefits of this entitlement program in Alaska.

<sup>19</sup>Assistance provided under this program would be paid back through loan proceeds or upon the sale of the related property. This grant program would be a stand-alone program that could be used in conjunction with the existing multi-family loan program.

<sup>20</sup>These are grants from private foundations which AHPC has or plans to apply.

<sup>21</sup>AHPC has applied for grants under the following federal programs: Youth Sports, Family Self-Sufficiency, Gateway Literacy, Family Investment Centers rehabilitation, Drug Elimination, Congregate Housing Services, and administration of Aging Supportive Services in Federally-assisted Housing Grants.

**APPENDIX B**  
(Continued)

Capital Budget Estimations for FY 96 through FY 01

PROGRAM NAME	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Chugach View Senior Housing Renovation	-0- c -0- f	6,353,600 c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f
Golden Towers Senior Housing Modernization	7,750,000 c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f	-0- c -0- f
Sunset View Senior Housing Renovation	-0- c -0- f	-0- c -0- f	3,867,700 c -0- f	4,254,470 c -0- f	4,679,917 c -0- f	5,147,909 c -0- f
Senior Housing and SF-210 Low Rent Public Housing Deferred Maintenance	1,750,000 c -0- f	2,000,000 c -0- f	1,500,000 c -0- f	1,200,000 c -0- f	1,000,000 c -0- f	500,000 c -0- f
Environmental Cleanup/Abatement for Senior Housing and SF-210 Low Rent Public Housing	1,000,000 c -0- f	1,000,000 c -0- f	1,000,000 c -0- f	1,100,000 c -0- f	1,210,000 c -0- f	1,331,000 c -0- f
Energy Conservation Retrofit for Senior Housing and SF-210 Low Rent Public Housing	500,000 c -0- f	500,000 c -0- f	500,000 c -0- f	550,000 c -0- f	605,000 c -0- f	665,500 c -0- f
<b>Total Budgeted Capital Corporate (c)</b>	<b>\$52,749,600</b>	<b>\$57,450,000</b>	<b>\$52,728,230</b>	<b>\$56,083,241</b>	<b>\$58,413,049</b>	<b>\$59,182,462</b>
<b>Total Budgeted Capital Federal (f)</b>	<b>\$19,526,100</b>	<b>\$15,044,700</b>	<b>\$20,519,970</b>	<b>\$22,101,967</b>	<b>\$23,842,164</b>	<b>\$25,756,380</b>
<b>Total All Capital Budgets</b>	<b>\$72,275,700</b>	<b>\$72,494,700</b>	<b>\$73,248,200</b>	<b>\$78,185,208</b>	<b>\$82,255,213</b>	<b>\$84,938,842</b>

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## APPENDIX C

This Appendix includes letters received by AHFC from various investment and brokerage firms in response to the financial analysis prepared by the Division of Legislative Audit in March 1994, and to the subsequent legislation transferring \$200 million from AHFC to the State.

Letters included are from:

Goldman, Sachs & Co.

Lehman Brothers

Merrill Lynch

George K. Baum & Company

CS First Boston

Dean Witter Reynolds Inc.

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Goldman, Sachs & Co. | 85 Broad Street | New York, New York 10004  
Tel 212-902-6489

Adam Sherman  
Vice President  
Municipal Finance Department

March 31, 1994

Mr. Will Gay  
Executive Director  
Alaska Housing Finance Corporation  
520 East 34th Avenue  
Anchorage, Alaska 99503

Dear Will:

You have asked us to comment on the likely reaction of the rating agencies and the bond market to a diversion of the Corporation's assets by the Legislature.

The rating agencies evaluate the capacity and willingness of state housing finance agencies to repay their general obligation debt by examining the following:

**State Economy**

- Composition and diversity of the economic base
- Dependence on specific industries
- Long term demand for housing

**Legislative Mandate**

- Importance the state government places on housing
- Long term viability of the agency
- Support of the governor and state legislature
- Bipartisan support for agency programs
- Security of fund balances/managerial autonomy

**Management**

- Management's track record/experience
- Ability to manage difficult situations over its operating history
- Administrative strategy/organization/philosophy/procedures
- Portfolio oversight/loan servicing capability/planning/computerization
- Investment policies/interest rate risk and cash flow management

**Earnings Quality and Financial Strength**

- Capitalization
- Consistency of earnings over its operating history
- Liquidity/asset quality

Based on the above criteria, we would like to emphasize the following considerations which could affect the rating of the Corporation and the State:

#### **Legislative Mandate**

The rating agencies will become concerned with any legislative action that is seen as a reversal of support that might lead to the gradual weakening of the Corporation. This perception may be particularly confusing in light of the recent merger of DCRA and ASHA, where the Corporation was widely acknowledged as the premier organization within the State to address the very difficult housing problems facing Alaskans. The merger was viewed very positively for the Corporation and for the State by both rating agencies and investors as it consolidated the State's efforts with AHFC because it has the management experience and financial resources to make a significant impact. The merger also had the positive effect of expanding the mission of the Corporation and enable it to apply its considerable resources to a much larger constituency than before.

#### **Economic Outlook**

The rating agencies view of long term economic outlook for Alaska is considered to be "bleak" due to its high dependence on oil and the production limitations of Prudoe Bay. As a result, the real estate market may continue to be volatile and place significant pressure on the Corporation's reserves in the future. These are significant negatives for AHFC's rating and therefore a great deal of emphasis is placed upon your managerial autonomy and financial strength.

#### **Importance of AHFC to the Alaskan Economy**

We think that the Streamline Refinance Program is an excellent example of how the Corporation was able to have a very positive impact on the state's economy. Before this program began, over 25,000 of the state's households held mortgages with rates above 9% and 14,000 had rates of above 10%. These borrowers were effectively locked out of the conventional mortgage market to refinance their loans because the value of their homes fell below their loan value. The Corporation, through some masterful negotiation with the mortgage insurers, their ability to take on substantial risk and their organizational skills, has created a highly successful program to allow these individuals access to the long term capital markets. To date, over 10,000 Alaskans have participated representing an average of \$3,600 of savings per year per household totalling over \$36 million per year over the next twenty years. This added annual \$36 million will now be spent in Alaska instead of being paid to bondholders (outside of the State).

As an aside, another state attempted a similar refinancing program which was unsuccessful and the program and the agency were criticized in the local press. This program failed, in large part, because the housing agency was not able to offer a low enough mortgage rate due to its unwillingness to commit capital and absorb some level of financial risk.

#### **Unique Access to 40-year Debt**

One of the great strengths of AHFC is its access to 40 year debt at the most competitive interest rates achievable. The State can benefit greatly from this access because of its own limitation based upon the "Prudoe curve" and the difficulty to issue debt beyond 2018. With regard to the State's long term capital needs, a partnership approach with

AHFC would be the most effective means to secure a reliable funding source in times of great economic uncertainty which will enhance the long term stability of the State.

**Conclusions / Recommendations**

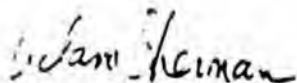
To close, if the Corporation is downgraded from this diversion of funds, we believe AHFC may be subject to bondholder action. The language in the 1994 Series A General Housing Purpose bond documents state that the Corporation use its "best efforts to assure no action will be taken which may result in the lowering, suspension or withdrawal of the ratings on the 1994 Bonds." We think that the Corporation can, however, work with the Legislature and the rating agencies to ensure an orderly process so that ratings are maintained and that AHFC is able to assist the State in this time of need.

We think it will be very important that the Legislature enter into a contractual arrangement to stipulate that any future draws on the Corporation's funds require a confirmation of ratings. While this may appear overly constraining, it is at first what the rating agencies will require to feel comfortable maintaining the current ratings and investors may look for to purchase AHFC's long term debt in the future.

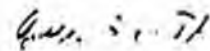
One final note on disclosure. We feel that timely disclosure to investors is critical to build confidence and prevent unnecessary volatility in the value of AHFC debt, especially in today's market where there is increased attention on disclosure by investors and the SEC. Any action regarding the possible withdrawal of AHFC's funds has significant implications for future action by bondholders, and future issuance by the Corporation and by the State, or any of its municipalities. The spirit of cooperation between all parties; AHFC, the Legislature and the rating agencies, is the best way to ensure AHFC and the State undisturbed access to the capital markets.

We recognize the difficult situation you are presented with and if we can be of any further assistance please don't hesitate to call.

Sincerely,



Adam Sherman  
Vice President and Manager  
Housing Finance Group



Gary Brandt  
Vice President

cc: Mark Cameron  
Ross Risvold  
Eric Wohlforth

# LEHMAN BROTHERS

SUZANNE S. NOFZ  
SENIOR VICE PRESIDENT

March 30, 1994

Mr. Will Gay  
Executive Director  
Alaska Housing Finance Corporation  
520 East 34th Avenue  
Anchorage, AK 99503

Dear Will:

I wanted to take this opportunity to express some thoughts regarding the financial analysis report prepared by the Division of Legislative Audit on the Alaska Housing Finance Corporation. I thought the Corporation's response to the report was quite instructive and certainly covered many of the issues which are clearly of concern to the Corporation's bondholders and the financial community generally.

Although many items in the report portend a potentially dramatic change in policy with respect to the future role and capacity of the Corporation to meet housing needs and access capital, I believe the most critical and urgent issue to be addressed is that of requiring the maintenance of existing ratings on the Corporation's outstanding debt as a condition of any dividend payment to the State of Alaska. Assuring investors and the rating agencies that any agreement reached between the Corporation, the Administration and the State Legislature includes a covenant to maintain current ratings will be critical to protecting the State of Alaska and the Corporation from potential liability arising from legal action taken by bondholders, and from a negative investor reaction that could impede your collective ability to access markets in the future. It is more than a matter of paying a higher interest cost; access at any cost may be curtailed, at least temporarily.

The rating maintenance covenant is particularly critical with respect to the Corporation's Euro-commercial paper program, Housing Development Bonds, and General Housing Purpose Bonds, the ratings of which rely upon the general obligation pledge and general fund balances of the Corporation rather than specific collateral. These particular obligations were sold without the benefit of specifically pledged assets and investors were instructed in the offering documents to evaluate the Corporation's balance sheet, management expertise, and control over its resources in making a decision to purchase these debt obligations. Both investors and the rating agencies relied on the general

Mr. Will Gay  
March 30, 1994  
Page 2

promise to pay by the Corporation in their decision making. Any impairment of the Corporation's ability to repay these obligations which results in a rating downgrade should be avoided if possible, and certainly if it is in your control to avoid the downgrade, investors will be particularly upset if you allow it to occur.

This is not to say that certain external events such as a rise in loan defaults or losses could not or would not cause a downgrade or withdrawal of the Corporation's general obligation ratings; that type of occurrence can certainly be viewed as being beyond your immediate control and part of the risk associated with buying Alaska Housing bonds, but in the current situation the Corporation's financial strength is being tested in a way that demonstrates a certain disregard for the investors which purchased the securities.

I would strongly encourage the Corporation to honor its obligations to existing investors by requiring that any dividend amount be predicated on either (1) maintaining the current ratings on the Corporation's unsecured general obligation debt or (2) redeeming or defeasing that debt. Most of the Corporation's other issues can stand on their own and probably will not be downgraded as a result of a reduction in the Corporation's general fund balance.

As you pointed out in your response to the Legislative Audit Report, the Corporation was the first and the only state housing finance agency to receive short and long term general obligation ratings from the rating agencies. These ratings were assigned based upon the Corporation's balance sheet, management expertise, and demonstrated financial integrity. To the extent these ingredients are reduced or eliminated, the Corporation would likely lose its general obligation ratings and the tremendous flexibility they afford.

The G.O. ratings provide many tangible benefits to the Corporation which other state housing finance agencies clearly do not enjoy. They include, among other things, the ability to raise working capital to warehouse mortgage loans and tax-exempt refunding authority, the ability to issue debt to finance multi-family, elderly, rural, homeless and other special needs housing programs, the ability to issue debt to finance cashflow deficits and capital projects on behalf of the State of Alaska, and finally the ability to attract outside capital from and establish partnerships with global financial institutions and federal agencies. These benefits should not be overlooked or dismissed. It took many years of hard work to reap them and if the general obligation pledge of the Corporation is devalued, it will be hard to bring them back.

I will note that no other state housing finance agency has the balance sheet to support a similar type of general obligation program. It may be true that the State of Alaska has other and more pressing needs to address at this time. That shift in focus can certainly be accommodated by reducing the size and scope of future Corporation activities but the shift should not jeopardize existing bondholders by reducing the value of the securities they

Mr. Will Gay  
March 30, 1994  
Page 3

purchased. If preventing a downgrade or withdrawal of the Corporation's general obligation ratings can not be achieved in conjunction with the proposed extraordinary dividend, I would strongly recommend that the Corporation defease it's existing general obligation debt or collateralize it sufficiently to merit standalone ratings. If this type of approach is taken no party will be harmed in the short run and the Corporation will preserve its financial reputation for the long run. There is no reason why the Corporation must continue its general obligation programs if the Board decides that the financial resources required to back them need to be redeployed elsewhere. The market will not penalize the Corporation for that decision but the market will penalize the Corporation for any breach of good faith that they perceive, real or imagined, if existing bond holders suffer an economic loss as a result of State or Corporation driven actions.

In summary, I would support the general tenets of the proposal you outlined, including the extraordinary dividend, as long as the general obligation ratings on existing debt do not suffer as a result.

Before concluding, I will just touch on one final point. I believe the existing dividend policy is well crafted. Much thought went into its establishment and it has been implemented without any negative impact on the Corporation's ratings or acceptance in the market place. I would hope that the State Legislature could appreciate its significance and value its design. If the State Legislature determines that it would like the Corporation to repay the contributed capital which was appropriated by the State to the Corporation in the early 1980's, it would seem that this type of Board directed approach which safeguards existing ratings would be most appropriate and least likely to cause a negative reaction from the investor community.

Sincerely,

Suzanne S. Nofz

cc: Mark Cameron  
Eric Weblforth, Esq.



David Notkin  
Vice President  
Housing Finance Department

Debt and Equity Markets Group

World Financial Center  
North Tower  
New York, New York 10281-1309  
212 449 0696  
FAX 212 449 7174

March 30, 1994

Mr. William Gay  
CEO/Executive Director

and

Mark Cameron  
CFO/Finance Director  
Alaska Housing Finance Corporation  
520 East 34th Avenue  
Anchorage, Alaska 99503

Dear Will and Mark:

You have asked Merrill Lynch to respond to the Alaska legislature's proposal that the Corporation transfer this year, either through an appropriation or extraordinary dividend approximately \$200 million. Specifically, you have asked us to comment on the probable AHFC investor reaction, reaction of investors in other Alaska agency or municipal bonds, and rating agency reaction as they relate to possible options of the Corporation which you have previously described. Transfers of assets from state agencies are not unprecedented. However, transfers of the amounts contemplated, \$535 million over the next three years (approximately one-third of the Corporation's consolidated equity), will most likely be viewed negatively by bondholders and rating agencies alike. The market implications of the proposed transfer will stem primarily from any perceived or actual credit rating actions taken as well as investor perceptions as to the future financial stability of the Corporation and its ability to control its destiny.

***General Obligation Rating Impact***

As a Standard & Poor's Corporation rating analyst in November, 1991, I had the privilege of issuing to the Corporation its "A+/A-1" general obligation ratings. These ratings considered that the State might appropriate funds from the Corporation in the event it experienced its own economic difficulties. Such an attempt was made earlier that year. The potential for such a raid on AHFC's fund balances precluded the committee from issuing a long-term rating in the "AA" rating category to the Corporation, despite its strong capitalization structure. At the time, the committee gained comfort from the Corporation's establishment of the State dividend program which demonstrated its proactive stance in lending meaningful financial support to the State in a measurable and affordable manner. The committee did not contemplate the potential



appropriation of funds of the amount currently being proposed by the State Legislature. I feel confident that the other rating agencies, Moody's Investor Service and Fitch Investor Service, considered similar issues in their bond ratings.

Such large appropriations, whether structured as extraordinary dividends or otherwise, would undoubtedly lead the rating agencies to reevaluate their outstanding ratings. The Corporation should expect to be listed on the rating "Watch Lists" of all three rating agencies with negative outlooks while each firm performs the necessary analyses. Financial analyses will focus on the affect on the Corporation's financial ratios, as well as an evaluation of the future profitability of AHFC which has already been constrained somewhat by a significant reduction of its asset base as a result of heavy mortgage loan prepayments during the past few years. In addition to measuring the impact of the withdrawn funds on AHFC's financial performance, the various rating committees will be concerned with the great level of future uncertainty created as a result of the transfer. *As a general rule, as uncertainties increase, ratings tend to decrease.* Even if some amount of transfer would not have a materially adverse impact on the immediate financial condition of the Corporation, the prospect of future unknown appropriations would increase and the rating agencies may feel compelled to lower their respective ratings accordingly. This could be mitigated somewhat if AHFC and the State were to enter into an *enforceable* agreement that would preclude any additional fund balance transfers in the future.

The level to which the Corporation's general obligation rating would be reduced is difficult to determine at this time. However, a reduction to very low investment grade ("BBB/Baa") can not be ruled out. It is quite rare, if not unprecedented, that an entity, be it corporate or municipal, is subjected to a single negative financial event which could have such a profound impact on the balance sheet, with such event volunteered by a previously perceived "interested" party. Typically, negative events which reduce ratings through categories have been associated with corporate issuers involved in leveraged takeovers or large unforeseen legal decisions such as class action product liability lawsuits. If the rating agencies cannot gain comfort that this is in fact a one time, and last time event, they may be forced to subject all of the Corporation's bond issues to a "run-off/depression" scenario which would significantly restrict AHFC's future operations.

#### *Structured Finance Ratings*

As you are aware, the majority of the Corporation's outstanding bond issues are rated based on the underlying quality of the pledged security, mortgage loans or mortgage-backed securities, investment obligations and third-party credit enhancements. Although many of the bonds rated in this manner are rated higher than AHFC's general obligation rating according to each issue's collateral structure, many of these issues have been afforded various levels of structuring and credit flexibility as a result of the Corporation's past financial condition. In fact, these structured financings carry the general obligation pledge of the Corporation, and are secured further by the various protective covenants that accompany such pledge. The rating agencies look to the Corporation's fund balances to cover potential loan losses which will not be covered by a third



party insurer or guarantor. In many instances, ratings (as high as "AAA/Aaa") have been maintained as a result of this reliance on AHFC's fund balance position. It is foreseeable that many of the Corporation's outstanding, structurally rated bond issues would be reviewed for possible downgrades.

### *Market Implications*

In general, anything which reduces the creditworthiness of a bond issuer will be viewed negatively in the credit markets. A significant reduction of the Corporation's fund balances will most likely result in higher borrowing cost for any bond issues which AHFC may bring to the market. The increase in borrowing costs will result from reduced demand for AHFC's bonds in general. The reduced demand will occur because certain previous purchasers of AHFC bonds will be precluded from buying or owning bonds (i.e. money market funds) if ratings are downgraded below "Aa/P-1" and "AA/F-1+" by Moody's and Fitch, respectively. In fact, many of these owners may be forced to liquidate their existing positions, albeit at a potential loss, if the ratings are reduced. This will increase the available supply of AHFC bonds in the market. At the same time, new buyers of AHFC paper may be scarce as a result of the increased uncertainty of the Corporation's future financial position and the potential for additional deterioration in credit quality. Subsequently, the offered yields on the Corporation's bonds would have to rise to justify the increased credit risk. Merrill Lynch believes that an across-the-board one rating category decline for AHFC's general obligation bond ratings would increase the Corporation's borrowing costs by approximately 10 to 15 basis points.

This supply/demand relationship may be especially volatile since this significant credit event would be created voluntarily by the State. Negative market implications may also be experienced by other bond banks and agencies within the State. In the worst case, investors will review all of their Alaska state agency holdings to assess the risk that their funds will be appropriated without regard to the creditworthiness of the issuer.

AHFC was able to maintain its credit ratings and trading relationships during the financially difficult years of the mid- to late 1980's by providing secondary market disclosure on its mortgage portfolio. This disclosure permitted the rating agencies and investors to perform in-depth assessments of the credit risks associated with the high level of loan losses experienced by the Corporation at that time. Investors may not be as cooperative under a credit event scenario where a third party has undermined the pledge security or assets.

The rise in borrowing costs will be especially negative for any refunding bonds being contemplated by the Corporation, such as for certain of the Corporation's outstanding Housing Mortgage Bonds and Insured Mortgage Program Bonds. Any increase in borrowing costs will reduce the economic debt service savings which would otherwise be achieved. Accordingly, the Corporation's future profitability would be constrained.



*Conclusion*

Merrill Lynch recommends ongoing discussions with the rating agencies to determine the short and long term rating implications of an appropriation. Merrill Lynch would be available to assist AHFC in its efforts to maintain the credit ratings on the existing bonds. Any strategic and financial planning which the Corporation can do to determine the true availability of funds would greatly serve the Corporation, the rating agencies and the investor and dealer communities. No matter what rating actions, if any, are taken, we believe that it will be essential for the Corporation to provide as much information as possible regarding the financial condition of AHFC and ongoing legislative processes.

I hope that you find this discussion helpful. If you have any questions, please do not hesitate to call me or Lori-Ann Wynter at any time.

Sincerely

A handwritten signature in cursive script, appearing to read "David Notkin".

David Notkin  
Vice President

cc: Ross Risvold  
Eric Wohlforth  
Barbara Feldman  
Lori-Ann Wynter  
Elke Chenevey  
James Spound

# George K. Baum & Company

INVESTMENT BANKERS

MEMBER  
NEW YORK STOCK EXCHANGE, INC.  
NASDAQ STOCK EXCHANGE

8000 TEXAS COMMERCE TOWER  
800 TRAVIS STREET  
HOUSTON, TEXAS 77002  
TELEPHONE (713) 222-0701  
FAX (713) 228-0048

## MEMORANDUM

**TO:** Will Gay  
CEO/ Executive Director  
Alaska Housing Finance Corporation

**FROM:** David Lail  
John Urbina

**DATE:** March 30, 1994

**RE:** Legislative Budget & Audit Financial Analysis dated March 15, 1994

George K. Baum & Company is an active participant in the marketing of Alaska Housing Finance Corporation's Single Family Mortgage Revenue Bonds as well as other State issuers such as the North Slope Borough. Accordingly, we are pleased to have the opportunity to comment on the captioned Financial Analysis and the recommendations contained therein.

Based on our review of the Financial Analysis and our conversations with various staff personnel, it is our understanding that the State legislature is considering a plan for the transfer of a significant amount of the HFC's cash assets - perhaps an amount in excess of \$500,000,000 over a three year period. We understand that economic necessities may dictate the need for the HFC to provide the State with some form of financial assistance. However, we believe that prudent fiscal management requires a careful analysis of the impact of such assistance on the ability in the future of the HFC and the State to access the capital markets at competitive rates.

We believe that the most important consideration from the market's perspective is the establishment of an ongoing planning process and framework for consideration of cash transfers from the HFC to the State. The key element of this framework must be the implementation of a system of safeguards to prevent a downgrade in the rating of the HFC's debt obligations. We believe that, absent such safeguards, the financial markets may impose costly penalties on the HFC in the form of higher interest rates on its debt obligations. We believe further that a loss of confidence in the marketplace under these circumstances could have a broader negative impact on the ability of the State and other Alaska municipal issuers to market debt obligations at competitive interest rates.

In summary, George K. Baum & Company believes that the benefits to the State associated with the proposed transfers must be carefully weighed against the cost of such action, both now and in the future. We believe that the entire State has benefited from the strong financial position of the Alaska Housing Finance Corporation and we encourage the legislature to carefully consider the important role that the HFC has played in the State's ability to successfully achieve broad capital market access.



*Memorandum*

**To:** Will Gay, CEO/Executive Director  
Mark Cameron, Chief Financial Officer  
Alaska Housing Finance Corporation

**From:** CS First Boston

**Date:** March 30, 1994

It is our understanding that there is presently a proposal before the Alaskan State Legislative Budget & Audit Committee to transfer certain funds from Alaska Housing Finance Corporation to the State. We understand the budgetary necessity at this time for some amount of financial support from the Corporation. However, we think it is very important that both AHFC and the Legislature carefully consider how any transfer of funds will occur and develop an objective plan with criteria and guidelines to present to the financial community. We believe the method of any funds transfer is even more important than the amount transferred for the following reasons:

1. Reaction of Bond Market
2. Impact on AHFC's Existing Funds and Accounts
3. Impact on Present and Future Programs of AHFC

**1. Reaction of Bond Market**

CS First Boston is a recognized municipal market maker by investors. In 1993, we placed approximately \$100 billion of tax-exempt securities in the secondary market in addition to our new issue volume of over \$10 billion. As a senior manager for AHFC, we have underwritten in excess of \$1 billion in bonds and our average daily position of \$340 million frequently includes the Corporation's bonds.

When an investor buys any long term municipal bond, there is an implicit understanding that no action will be taken that will negatively impact on the credit quality of that bond for its life. Circumstances outside an issuer's control might cause a downgrade in a rating but it is commonly understood in all municipal transactions that any municipal issuer will decisively act to avoid a bond downgrade. When a municipal bond is downgraded, this will have a negative impact on both primary and secondary market reception and such would be the case with AHFC's bonds if the funds transfer resulted in a downgrade. Irregardless of whether or not a transfer of funds could be accomplished without a downgrade, a transfer to the State outside the context of an overall plan would be negatively received— as all of the Corporation's outstanding debt carries a full faith and credit guarantee (meaning investors look to all of the Corporation's assets as security). In fact, it could have more dire consequences than the higher cost of capital normally associated with a downgrade because the arbitrary nature of the action would be viewed by investors as a total

disregard for accepted municipal market safeguards like ratings. This could result in AHFC being unable to sell its bonds at any price even with its existing rating since they would have no basis to believe the current bond rating would be maintained. This is particularly true since institutional investors, who make up 85% of the municipal market, have many other investment choices.

## **2. Impact on AHFC's Existing Funds and Accounts**

As the State of Alaska's Division of Legislative Audit's financial analysis indicates, the Corporation is in a strong financial position. However, given the wide range and complexity of AHFC's financings, it is difficult to determine which funds are both liquid and free of prior pledges and therefore available for withdrawal without a full capital review. In fact, since the Corporation's \$150 million revolving liquidity facility expires March 31st in order to make funds available quickly AHFC may have to borrow against its existing assets in the capital markets. This would require reaffirmation of the Corporation's G.O. rating by the rating agencies and the rating agencies would only do that with an understanding that AHFC and the Legislature have jointly developed a plan for assistance to the State and that future amounts would only be sought within the context of this plan.

## **3. Impact on G.O. Rating and Future Programs of AHFC**

In 1992, AHFC became the first state housing finance agency to receive a rating based solely on its general obligation. It is this G.O. rating that enables AHFC to meet its new housing mandates since none of the traditional housing credit providers such as FNMA, Freddie Mac, etc. have taken on the added responsibility and risk of new types of housing needs. Even HUD's new FHA program for multi-family housing assumes a sharing of risk with state HFAs and requires a G.O. rating for preferential treatment with respect to underwriting standards and division of risk. In fact, increasingly other HFAs are following AHFC's lead and are applying for general obligation ratings.

We believe that the Corporation can contribute funds to the State and still maintain its G.O. rating but it may require AHFC to set aside additional reserves or enter into new covenants so that the rating agencies can be assured that bondholders are protected from future withdrawals of funds. Again, we believe the rating agencies will work with the Corporation as they have in the past as long as they perceive this transfer of funds is done as part of a mutually agreed to plan. Even with these safeguards in place, the removal of funds will certainly cause the rating agencies to monitor the Corporation more closely and may limit the extent to which AHFC can support some of the new programs that are now under its jurisdiction. Again if there is not some logic and structure as to why the funds have been transferred as well as a sense that a future plan of approach has been agreed to by both AHFC and the Legislature, AHFC may be precluded from raising capital for any of its programs.

CS First Boston has had the pleasure of serving the Corporation for many years. We applaud the hard work the State of Alaska and the Corporation has invested in building a strong reputation in the bond market and want to assist in any way to ensure this reputation is maintained. We hope you have found our remarks helpful and would be happy to further elaborate on any of the points discussed.

DEAN WITTER REYNOLDS INC.  
=2 World Trade Center, New York, NY 10048  
Telephone (212) 392-2604

PHILIP KOROT  
Executive Vice President  
& Managing Director

April 5, 1994

Mr. William Gay  
Executive Director  
Alaska Housing Finance Corporation  
520 East 34th Avenue  
Anchorage, AK 99503

Dear Will:

This letter will serve as a follow-up to our recent conversation concerning Alaska Housing Finance Corporation's (the "Corporation") response to a Legislative Budget and Audit Report (the "Report").

The Corporation enjoys a unique position in the financial marketplace and it should do everything in its power to maintain its broad access to the public market. A good example of its financial strength is its recent general obligation financing in which Dean Witter acted as its underwriter. In that financing, the Corporation achieved "Aa" ratings without having to pledge any specific assets. Bondholders, underwriters and the rating agencies are comfortable with the Corporation's financial management and strong historical financial performance. The Corporation has a very high general obligation rating and is one of the premier state housing finance agencies.

The Corporation in connection with responding to the Report and potentially assisting the State should consider the following:

1. Any action which results in a downgrading, suspension or withdrawal of any rating on any of the Corporation's existing debt could raise significant financial issues for the Corporation. Attention should be directed to the Corporation's recent covenant in the General Housing Purpose Bonds - 1994 Series A which states that "it will use its best efforts to assure that no action will be taken which may result in the lowering, suspension or withdrawal of the ratings on the 1994 Bonds".
2. Any action by the Corporation should be part of a comprehensive plan with a stated purpose, goal and timetable. No appropriation or transfer of assets should be contemplated unless a part of a bilateral agreement.

Mr. William Gay

April 5, 1994

Page 2

3. The Corporation must work with its financial partners (i.e. Letter of Credit Banks, Fannie Mae, Insurers and other similar credit enhancement providers) to ensure that any action is consistent with existing financial covenants and restrictions and would not limit its financial flexibility in the future.
4. Maintenance of an adequate short term rating is important to continue the Corporation's mortgage warehousing and commercial paper programs.
5. The Corporation must retain sufficient fund equity and liquid assets to handle an adverse change in the real estate market or a significant economic recession.
6. Any transfer of assets or "Return of Capital" to the State for its initial investment must be structured in a manner that maintains the long term viability and vitality of the Corporation and its programs.
7. Any expanded Dividend Payment Program should be consistent with traditional financial standards (i.e. payment of dividends out of net income).
8. Any change, as a result of a payment to the State, in existing ratios of debt to equity, debt to capital or debt to liquid assets should be consistent with the standards established for other types of financial service institutions.

The marketplace understands the need of quasi-public corporations to assist a state in time of fiscal crisis, however, **no such assistance should result in a rating agency downgrade or a significant weakening in the balance sheet or financial condition of the Corporation.** Given the critical role that the Corporation plays in importing capital into the State and maintaining a vibrant real estate market and construction sector of the economy, it is imperative that any transfer by the Corporation to the State be viewed without negative financial implications.

Anything I can do to assist the Corporation in presenting the above concerns, or in any other matter, please do not hesitate to call.

Sincerely,

A handwritten signature in black ink, appearing to be "D. Q. K. S.", written in a cursive style.

cc: Mr. Mark Cameron

PK/rh

# FISCAL NOTE

2/1/95  
(S) STA,  
FIN

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. SB 40

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Appropriation: AHFC to General Fund BRU: Alaska Housing Finance Corporation  
 Component: AHFC-Operations  
 Sponsor: Sen. Sharp  
 Requester: \_\_\_\_\_ COMPONENT SERIAL NO. 110

**Expenditures/Revenues**

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>(200,000.0)</b>	<b>(135,000.0)</b>				
-------------------------------	--------------------	--------------------	--	--	--	--

**FUND SOURCE**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY95) cost: \$ \_\_\_\_\_

**POSITIONS**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary)

See attachment

Prepared by: Bob Baratko  
 Division: Administrative Services Division  
 Approved by: \_\_\_\_\_  
 Commissioner: Deborah Voigt  
 Agency: Revenue

Phone: 465-2312  
 Date: 1/30/95  
 Date: 1/31/95

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only.

SB 40

**Alaska Housing Finance Corporation**  
Comments Concerning senate Bill No. 40  
January 30, 1995

Alaska Housing Finance Corporation interprets Senate Bill 40 to be an appropriation contingent on the State's receipt of funds "anticipated to be transferred at the direction of the board." The effect of the bill, then is to (i) announce the Legislature's anticipation that the Corporation will transfer the amounts indicated, (ii) allow for the entry of the amounts on to the State accounting system, and (iii) designate where the funds, if received, are to be deposited.

The Corporation appreciates the sensitivity expressed in the language of the bill to the issue of control by the Corporation over the financial resources securing the pledge to holders of AHFC debt securities. While a public instrumentality whose mission and authority is governed by the Administration and Legislature, the separate legal status of AHFC, which is clearly stated in the enabling legislation and has been represented to each purchaser of its debt obligations, must be honored.

The value of the Corporation to the State of Alaska extends well beyond calculations of equity and net unrestricted assets. The Alaska Housing Finance Corporation is financially sound and well managed, factors which were critical to its achieving investment-grade ratings from three internationally recognized agencies. Because of these ratings, the Corporation is able to multiply its resources many times over by (i) accessing the lowest-cost capital market available for its mortgage lending programs, and (ii) administering, and funding the required match for, available Federal programs. This leveraging has tremendous economic benefit to Alaska.

in considering any plan for transferring AHFC resources to the State, of paramount concern should be (i) protecting the Corporation's ability to access capital markets, (ii) an understanding of how the perception of AHFC in the capital markets affects the borrowing capacities and costs of other Alaskan entities, (iii) honoring the rights and expectations of holder's of AHFC debt obligations, and (iv) maintenance of essential programs of benefit to residents throughout Alaska. The Corporation has successfully met these objectives in the past in connection with transfers to the State general fund which, at the end of this fiscal year, will aggregate \$595,171,000.

Any transfer plan must recognize that bondholders and other financial partners have relied on all assets of AHFC being available to meet commitments. The removal of assets must occur only when it can be clearly demonstrated that in so doing, those obligations will still be met.

There are several key factors that needs to be incorporated in any plan to transfer resources from AHFC to the State. These include:

1. The need for the determination and authorization for any transfer to be done at the AHFC Board level.
2. The requirement that the financial integrity of the Corporation be maintained.
3. The maintenance of financial resources sufficient to assure that financial and program commitments can be met.
4. The transfer does not violate the terms of any outstanding agreements and is not likely to ultimately cause any terms to be violated.
5. The transfer will not result in the reduction, withdrawal or suspension of a rating on any of the Corporation's outstanding debt obligations.

The AHFC Board of Directors has been recently reconstituted. While much has been done with regard to the strategic planning process discussed last year, it is reasonable to expect that the Board will need some time to review the work accomplished, current resource and program status, and overall statewide housing needs prior to taking a position concerning any program of funds transfer to the State. if the Board adopts the above criteria for transfers, it will need time to apply the criteria to these facts.

sb40pos.ahf

# Alaska State Legislature

SENATOR  
BERT SHARP  
DISTRICT P  
CHAIRMAN  
SENATE STATE AFFAIRS COMMITTEE  
MEMBER  
FINANCE COMMITTEE  
RULES COMMITTEE

FAIRBANKS  
SENATE BANK BUILDING  
113 N. TUSHNETT, SUITE 201  
FAIRBANKS, ALASKA 99701  
907/452-7945/7586  
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STATE CAPITOL, ROOM 514  
JUNEAU, ALASKA 99801-1182  
907/465-3004/4921

Senate

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## MEMORANDUM

TO: Senator Rick Halford, Co-Chairman  
Senator Steve Frank, Co-Chairman  
Senate Finance Committee

FROM: Senator Bert Sharp *BMS*

RE: Request for Hearing on SB 40

DATE: February 15, 1995

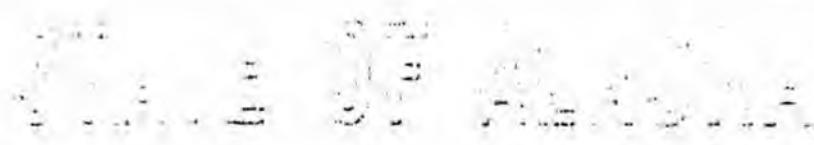
I am requesting Senate Bill 40 making appropriations from the Alaska Housing Finance Corporation to the general fund be scheduled for a hearing in the Senate Finance Committee as soon as possible.

Based on this audit analysis I have introduced SB 40 to assist the Governor and Legislature in solving some of Alaska's revenue problems.

Thank you for your consideration.



REPRESENTING  
GOLDEN HEART  
OF ALASKA



TONY KNOWLES, GOVERNOR

DEPARTMENT OF REVENUE

STATE OFFICE BUILDING  
P.O. BOX 110410  
JUNEAU, ALASKA 99811-0410

February 1, 1995

The Honorable Bert Sharp  
Alaska State Legislature  
State Capitol. Rm. 514  
Juneau, AK 99801-1182

Dear Senator Sharp:

Per your request for amplification of this Department's SB40 fiscal note which addressed Alaska Housing Finance Corporation's "transfers to...the General Fund...\$595,171,000.00" the following is submitted:

Debt Repayment	FY86	\$12,141,000.00
	FY87	\$16,127,000.00
	FY94	\$ 1,573,000.00
Assets Purchased from the State	FY 87	\$ 70,000,000.00
	FY92	\$179,892,000.00
	FY94	\$ 1,114,000.00
Dividends	FY91	\$ 17,171,000.00
	FY92	\$ 19,412,000.00
	FY93	\$ 40,715,000.00
	FY94	\$ 16,983,000.00
	FY95	\$ 20,043,000.00
Transfers	FY95	\$200,000,000.00

If I can provide any further assistance please call me at 465-2312.

Sincerely,

  
R.E. Baratko

Director

Administrative Services Division

95-007



# Alaska State Legislature

## SENATE

Official Business

State Capitol  
Juneau, AK 99801-1182

### SPONSOR STATEMENT

SB - 40

Senator Bert Sharp

The State of Alaska is facing a major funding shortfall in FY 1996 and beyond. Our primary tool in handling this budget shortfall has been and will continue to be spending reductions. I also feel it is time to use some of our "savings accounts" to cushion the blow on our state's economy. The State's general fund has contributed \$1,073,515,000 to capitalize AHFC, a majority of those funds appropriated 1980-84.

In writing the FY 95 operating and capital budget the Governor and Legislature felt it was prudent to begin receiving a dividend from Alaska Housing Finance Corporation (AHFC). The Division of Legislative Audit conducted an audit (#04-4486-94) to prepare a Financial Analysis of AHFC to determine the amount of cash and investments that would be available in FY 94 and FY 95 and beyond.

The audit analysis of AHFC's financial statements and cash flow projections demonstrated that there is approximately \$535 million of available unrestricted cash that could be withdrawn from AHFC. The FY 95 budget included a dividend from AHFC of the first \$200 million.

FY 94	\$200 million
FY 95	\$214 million
FY 96	\$121 million
<u>Total Available</u>	<u>\$535 million</u>

Based on this audit analysis I have introduced Senate Bill 40 to assist the Governor and Legislature in solving some of Alaska's revenue problems.

**UPDATE** on FY 95 AHFC Dividend: The current year appropriation of \$200 million is on track with a \$50 million deposit quarterly. There has been no negative impact on AHFC's bond rating as a result of this dividend program.

# SENATE COMMITTEE REPORT

## First Committee of Referral

DATE: 1/20/95

FURTHER: Finance

Date of 5-Day Notice: 1/26/95  
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 2-8-95

State Affairs      Committee considered      SB 40

Making appropriations from the Alaska Housing Finance Corporation revolving fund to the general fund; ~~etc.~~

and recommends:

- | be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- | adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- | attached amendment(s)
- | adopt Letter of Intent by \_\_\_\_\_ Committee
- | further referral to the \_\_\_\_\_ Committee

Senate Bill:

- | same title
- | new title
- House Bill:
- | technical change
- | new: SCR# \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS:	DP	DNP	NR	AM
<i>Rollin C. Peltola</i>	✓			
<i>Dan Claitor</i>			✓	
CHAIR: <i>Bob Sharp</i>	✓			

**NEW FISCAL NOTE(S):**

Department	Date	Zero	Fiscal

**PREVIOUS FISCAL NOTE(S):\***

Department	Date	Zero	Fiscal

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill