

**HB**

**256**

SFIN

FILE

# SENATE FINANCE COMMITTEE REPORT

REPORTED OUT

MAY 7 2003

SENATE FINANCE  
COMMITTEE

DATE: 4/25/03

FURTHER:

DATE TURNED  
IN TO OFFICE: 7 May 2003

Finance Committee considered      HOUSE BILL NO. 256

## HB 256 DIVIDEND PAYMENT TO STATE BY AHFC

"An Act relating to a dividend payment to the state made by the Alaska Housing Finance Corporation each fiscal year; and providing for an effective date."

and recommends:

- be replaced with S CS HB 256 (FIN)
- adopt previous \_\_\_\_\_ CS CS forthcoming (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical title
  - new: SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#
Revenue	4/16/03		✓	#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	No REC	AMEND
<i>Adrian Taylor</i>			✓	
<i>Donna Collins</i>			✓	
<i>Bob Beube</i>	✓			
<i>Don Stevens</i>	✓			
COCHAIR: <i>Lyda Green</i>	✓			
COCHAIR: <i>Gary Wilhelm</i>	✓			

# FISCAL NOTE

REPORTED OUT

MAY 7 2003

SENATE FINANCE  
COMMITTEE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1  
 Bill Version: HB 256  
 (H) Publish Date: 4/14/2003

Revision Date/Time \_\_\_\_\_ Dept. Affected: Revenue  
 Title "An Act relating to a dividend payment  
to the state made by the AHFC each fiscal year. BRU Alaska Housing Finance Corp.  
 Component Operations  
 Sponsor House Finance Committee  
 Requester House Finance Committee Component No. 110

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<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 (FY2003) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

The passage of HB 256 would not have an impact on AHFC's operating budget.

This bill would increase the dividend from AHFC to the State General Fund from the FY 2002 net income amount of \$75.6 million to \$103 million for FY 2004. The dividend for FY 2005 and FY 2006 would also be \$103 million. In FY 2007, the dividend would equal 95% of AHFC's net income, in FY 2008 the dividend would equal 85% of net income, and the dividend thereafter would be equal to 75% of AHFC's net income.

Prepared by: Bryan Butcher Phone 330-8445  
 Division Alaska Housing Finance Corporation Date/Time 4/16/03 9:54 AM  
 Approved by: \_\_\_\_\_ Date 4/16/2003  
 Agency \_\_\_\_\_

1 (C) minus any appropriation of unrestricted, unencumbered money of  
2 the corporation during fiscal year 2004, other than an appropriation for the  
3 corporation's operating budget;

4 (2) fiscal year 2005:

5 (A) \$103,000,000;

6 (B) minus the amount of money from the Alaska Housing Finance  
7 Corporation used during fiscal year 2005 for bond repayments and other costs related  
8 to the bonds issued under

9 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;

10 (ii) sec. 2, ch. 129, SLA 1998;

11 (iii) sec. 10(b), ch. 130, SLA 2000;

12 (iv) sec. 1, ch. 1, SSSLA 2002; and

13 (C) minus any appropriation of unrestricted, unencumbered money of  
14 the corporation during fiscal year 2005, other than an appropriation for the  
15 corporation's operating budget;

16 (3) fiscal year 2006:

17 (A) \$103,000,000;

18 (B) minus the amount of money from the Alaska Housing Finance  
19 Corporation used during fiscal year 2006 for bond repayments and other costs related  
20 to the bonds issued under

21 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;

22 (ii) sec. 2, ch. 129, SLA 1998;

23 (iii) sec. 10(b), ch. 130, SLA 2000;

24 (iv) sec. 1, ch. 1, SSSLA 2002; and

25 (C) minus any appropriation of unrestricted, unencumbered money of  
26 the corporation during fiscal year 2006, other than an appropriation for the  
27 corporation's operating budget;

28 (4) fiscal year 2007:

29 (A) the lesser of \$103,000,000 or 95 percent of the net income of the  
30 Alaska Housing Finance Corporation for fiscal year 2005;

31 (B) minus the amount of money from the Alaska Housing Finance

Amend #1  
adopted

23-LS0838V

1 Corporation used during fiscal year 2007 for bond repayments and other costs related  
2 to the bonds issued under

- 3 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;
- 4 (ii) sec. 10(b), ch. 130, SLA 2000;
- 5 (iii) sec. 1, ch. 1, SSSLA 2002; and

6 (C) minus any appropriation of unrestricted, unencumbered money of  
7 the corporation during fiscal year 2007, other than an appropriation for the  
8 corporation's operating budget;

9 (5) fiscal year 2008:

10 (A) the lesser of \$103,000,000 or 85 percent of the net income of the  
11 Alaska Housing Finance Corporation for fiscal year 2006;

12 (B) minus the amount of money from the Alaska Housing Finance  
13 Corporation used during fiscal year <sup>2008</sup>~~2007~~ for bond repayments and other costs related  
14 to the bonds issued under

- 15 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;
- 16 (ii) sec. 10(b), ch. 130, SLA 2000;
- 17 (iii) sec. 1, ch. 1, SSSLA 2002; and

18 (C) minus any appropriation of unrestricted, unencumbered money of  
19 the corporation during fiscal year 2008, other than an appropriation for the  
20 corporation's operating budget.

21 (b) For purposes of this section, "net income" has the meaning set out in  
22 AS 18.56.089(d).

23 \* Sec. 3. This Act takes effect July 1, 2003.

SENATE FINANCE COMMITTEE  
5/7/2003 COMMITTEE ACTION

Bill Number	HB 256		
Amendment	#1		
Motion	adopt		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	none		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Stevens			
Senator Taylor			
Senator Bunde			
Senator Hoffman			
Senator Olson			
Co-Chair Green			
Co-Chair Wilken			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Pass		

**SENATE CS FOR HOUSE BILL NO. 256(FIN)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Offered:**  
**Referred:**

**Sponsor(s): HOUSE FINANCE COMMITTEE**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to a dividend payment to the state made by the Alaska Housing**  
2 **Finance Corporation each fiscal year; and providing for an effective date."**

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

4 **\* Section 1.** AS 18.56.089 is amended by adding new subsections to read:

5 (c) Th corporation shall make a dividend available to the state each fiscal  
6 year. The corporation shall pay the dividend for a current fiscal year to the state  
7 before the end of that fiscal year. The corporation shall notify the commissioner of  
8 revenue of the amount of each dividend under this subsection for inclusion in the state  
9 operating budget and shall also notify the commissioner when each dividend is  
10 available for payment to the state. The amount of the dividend for a current fiscal year  
11 is calculated as follows:

12 (1) the lesser of \$103,000,000 or 75 percent of the net income of the  
13 corporation for the base fiscal year;

14 (2) minus the amount of money from the corporation used during that

1 current fiscal year for bond repayment and other costs related to the bonds issued  
2 under

3 (A) ch. 26, SLA 1996, up to a maximum of \$1,000,000;

4 (B) sec. 10(b), ch. 130, SLA 2000;

5 (C) sec. 1, ch. 1, SSSLA 2002; and

6 (3) minus any appropriation of unrestricted, unencumbered money of  
7 the corporation during the current fiscal year, other than an appropriation for the  
8 corporation's operating budget.

9 (d) In (c) of this section,

10 (1) "base fiscal year" means the fiscal year ending two years before the  
11 end of the current fiscal year in which the dividend is made available to the state;

12 (2) "dividend" means a payment made to the state under (c) of this  
13 section;

14 (3) "net income" means the corporation's operating income before  
15 deducting nonoperating expenses, special items, and transfers as set out in the audited  
16 financial statements of the corporation for the base fiscal year.

17 \* **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to  
18 read:

19 **TRANSITION: PHASE-IN OF AMOUNT OF DIVIDEND.** (a) Notwithstanding the  
20 amount of the annual dividend under AS 18.56.089(c), added by sec. 1 of this Act, the  
21 dividend is calculated as follows for the following years:

22 (1) fiscal year 2004:

23 (A) \$103,000,000;

24 (B) minus the amount of money from the Alaska Housing Finance  
25 Corporation used during fiscal year 2004 for bond repayments and other costs related  
26 to the bonds issued under

27 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;

28 (ii) sec. 2, ch. 129, SLA 1998;

29 (iii) sec. 10(b), ch. 130, SLA 2000;

30 (iv) sec. 1, ch. 1, SSSLA 2002; and

31 (C) minus any appropriation of unrestricted, unencumbered money of

1 the corporation during fiscal year 2004, other than an appropriation for the  
2 corporation's operating budget;

3 (2) fiscal year 2005:

4 (A) \$103,000,000;

5 (B) minus the amount of money from the Alaska Housing Finance  
6 Corporation used during fiscal year 2005 for bond repayments and other costs related  
7 to the bonds issued under

8 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;

9 (ii) sec. 2, ch. 129, SLA 1998;

10 (iii) sec. 10(b), ch. 130, SLA 2000;

11 (iv) sec. 1, ch. 1, SSSLA 2002; and

12 (C) minus any appropriation of unrestricted, unencumbered money of  
13 the corporation during fiscal year 2005, other than an appropriation for the  
14 corporation's operating budget;

15 (3) fiscal year 2006:

16 (A) \$103,000,000;

17 (B) minus the amount of money from the Alaska Housing Finance  
18 Corporation used during fiscal year 2006 for bond repayments and other costs related  
19 to the bonds issued under

20 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;

21 (ii) sec. 2, ch. 129, SLA 1998;

22 (iii) sec. 10(b), ch. 130, SLA 2000;

23 (iv) sec. 1, ch. 1, SSSLA 2002; and

24 (C) minus any appropriation of unrestricted, unencumbered money of  
25 the corporation during fiscal year 2006, other than an appropriation for the  
26 corporation's operating budget;

27 (4) fiscal year 2007:

28 (A) the lesser of \$103,000,000 or 95 percent of the net income of the  
29 Alaska Housing Finance Corporation for fiscal year 2005;

30 (B) minus the amount of money from the Alaska Housing Finance  
31 Corporation used during fiscal year 2007 for bond repayments and other costs related

1 to the bonds issued under

2 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;

3 (ii) sec. 10(b), ch. 130, SLA 2000;

4 (iii) sec. 1, ch. 1, SSSLA 2002; and

5 (C) minus any appropriation of unrestricted, unencumbered money of  
6 the corporation during fiscal year 2007, other than an appropriation for the  
7 corporation's operating budget;

8 (5) fiscal year 2008:

9 (A) the lesser of \$103,000,000 or 85 percent of the net income of the  
10 Alaska Housing Finance Corporation for fiscal year 2006;

11 (B) minus the amount of money from the Alaska Housing Finance  
12 Corporation used during fiscal year 2008 for bond repayments and other costs related  
13 to the bonds issued under

14 (i) ch. 26, SLA 1996, up to a maximum of \$1,000,000;

15 (ii) sec. 10(b), ch. 130, SLA 2000;

16 (iii) sec. 1, ch. 1, SSSLA 2002; and

17 (C) minus any appropriation of unrestricted, unencumbered money of  
18 the corporation during fiscal year 2008, other than an appropriation for the  
19 corporation's operating budget.

20 (b) For purposes of this section, "net income" has the meaning set out in  
21 AS 18.56.089(d).

22 \* Sec. 3. This Act takes effect July 1, 2003.

Amend  
#1



Official Business

# Alaska State Senate

## Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

### FAX COVER SHEET

DATE: 7 May 2003 TIME: 10:20 am

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 1

FROM: MINDY ROWLAND  
SENATE FINANCE COMMITTEE SECRETARY  
PHONE: 465-4935  
FAX: 465-2187

NOTES: HB 256 23-0838 \ I

plus one amendment:

pg 4 line 13: delete "2007"

insert "2008"

Final Please!

Thanks  
Mindy

# Alaska State Legislature

## House Finance Committee



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State Capitol, Juneau, Alaska 99801-1182

## SPONSOR STATEMENT

House Bill 256, An Act relating to a dividend payment to the state made by the Alaska Housing Finance Corporation each fiscal year

House Bill 256 would amend and codify the agreement between the Alaska Housing Finance Corporation and the Legislature calling for the transfer of AHFC's net income to the State General Fund in the form of an annual dividend that funds debt service for certain bonds and capital projects.

Under the current plan, the transfer from AHFC for FY 2004 would be \$75.6 million, down from \$103 million for FY 2003. With the modifications in this bill, the transfer amount would remain at \$103 million for Fiscal Years 2004 through 2006.

In order to allow AHFC to make these payments in excess of net income without affecting their bond ratings, starting in FY2007 the payments from AHFC to the state would be a percentage of net income. This change would bring the AHFC dividend more in line with the AIDEA and Alaska Student Loan Corporation dividend plans. Currently the ASLC pays less than 35% of its net income and AIDEA pays 50% of its net income to the State, while this proposal has AHFC paying 95% in 2007, 85% in 2008 and 75% thereafter.

The purpose of this bill is to keep the transfers from AHFC at a predictable, sustainable level while assisting the Governor and the Legislature in finding a balance between state revenues and expenditures.

This orderly and sustainable approach to transfers will help AHFC and the State of Alaska maintain their strong bond ratings and access to capital markets—which will likely be critical to any fiscal plan developed by the State.

**Alaska Housing Finance Corporation**  
**Summary of Projected Amounts Available for Appropriation**

Fiscal Year	Total Equity	Net Income	Cash Transfers	Capital Budget	Total Transfers	Committed to Debt Service	AHFC Capital Budget	Net Available for General State Use	% P/Y Net Income	% C/Y Net Income	% Total Equity
1996		<i>117,480</i>	<i>70,000</i>	<i>58,033</i>	<i>128,033</i>	-	26,806	101,227		109%	
1997	1,814,393	<i>108,326</i>	<i>50,000</i>	<i>51,048</i>	<i>101,048</i>	-	29,978	71,070		93%	5.569%
1998	1,821,455	<i>95,916</i>	<i>50,000</i>	<i>53,000</i>	<i>103,000</i>	-	24,214	78,766	88%	107%	5.655%
1999	1,788,035	<i>79,850</i>	<i>50,000</i>	<i>53,000</i>	<i>103,000</i>	7,856	14,885	80,259	95%	129%	5.761%
2000	1,752,355	<i>81,802</i>	<i>50,000</i>	<i>53,000</i>	<i>103,000</i>	17,934	22,472	62,594	107%	126%	5.878%
2001	1,773,677	<i>96,353</i>	<i>50,000</i>	<i>53,000</i>	<i>103,000</i>	34,992	14,121	53,887	129%	107%	5.807%
2002	1,765,810	<i>75,660</i>	<i>50,000</i>	<i>53,000</i>	<i>103,000</i>	43,999	18,971	40,030	126%	136%	5.833%
2003	<b>1,765,810</b>	<b>68,650</b>	<b>50,000</b>	<b>53,000</b>	<b>103,000</b>	<b>50,000</b>	<b>13,002</b>	<b>39,998</b>	<b>107%</b>	<b>150%</b>	<b>5.833%</b>
2004	<b>1,692,811</b>	<b>70,000</b>	<b>50,000</b>	<b>53,000</b>	<b>103,000</b>	<b>50,000</b>	<b>25,660</b>	<b>27,340</b>	<b>136%</b>	<b>147%</b>	<b>6.085%</b>
2005	<b>1,624,811</b>	<b>75,000</b>	<b>50,000</b>	<b>53,000</b>	<b>103,000</b>	<b>50,000</b>	<b>25,000</b>	<b>28,000</b>	<b>150%</b>	<b>137%</b>	<b>6.339%</b>
2006	<b>1,561,812</b>	<b>80,000</b>	<b>50,000</b>	<b>53,000</b>	<b>103,000</b>	<b>50,000</b>	<b>25,000</b>	<b>28,000</b>	<b>147%</b>	<b>129%</b>	<b>6.595%</b>
2007	<b>1,575,562</b>	<b>85,000</b>	<b>46,250</b>	<b>25,000</b>	<b>71,250</b>	<b>20,234</b>	<b>25,000</b>	<b>26,016</b>	<b>95%</b>	<b>84%</b>	<b>4.522%</b>
2008	<b>1,597,562</b>	<b>90,000</b>	<b>43,000</b>	<b>25,000</b>	<b>68,000</b>	-	<b>25,000</b>	<b>43,000</b>	<b>85%</b>	<b>76%</b>	<b>4.256%</b>
2009	<b>1,628,812</b>	<b>95,000</b>	<b>38,750</b>	<b>25,000</b>	<b>63,750</b>	-	<b>25,000</b>	<b>38,750</b>	<b>75%</b>	<b>67%</b>	<b>3.914%</b>
2010	<b>1,661,312</b>	<b>100,000</b>	<b>42,500</b>	<b>25,000</b>	<b>67,500</b>	-	<b>25,000</b>	<b>42,500</b>	<b>75%</b>	<b>68%</b>	<b>4.063%</b>
2011	<b>1,695,062</b>	<b>105,000</b>	<b>46,250</b>	<b>25,000</b>	<b>71,250</b>	-	<b>25,000</b>	<b>46,250</b>	<b>75%</b>	<b>68%</b>	<b>4.203%</b>

**Assumptions**

- Change in Alaska Statutes 18.56 to reflect % of net income to determine annual transfer to State
- Maintain/Increase AHFC issuer credit ratings
- Maintain AHFC's ability to respond/react to changes in housing industry
- Achieve a consistent & predictable approach to transfers with the ability to sustain them on a long-term basis

**Notes:**

Bold numbers are projections, Italic numbers are historic/actuals

5/19/03

Contact	Phone
<i>New York</i>	
Wendy Berry	1.212.553.4104
Florence Zeman	1.212.553.4836

## Unprecedented State Budget Deficits Across Nation Prompt Surge In HFA Transfer Proposals

*Raids Continue To Stress Many Hfas At A Time When Industry Is Dealing With Its Own Market Challenges. Twelve Proposals Totalling More Than \$360 Million Under Analysis- More State Raids Expected.*

### Summary Opinion

- For 2003, Moody's expects state governments to continue last year's trend of tapping their housing finance agencies (HFAs) to help close projected budget gaps. State raids of HFAs topped \$500 million in 2002 and Moody's expects similar, or even greater, amounts to be transferred in the coming months.
- In the last few weeks, Moody's has been advised of 12 proposals that, if enacted as currently proposed, would transfer \$364.76 million from HFA coffers for either general state purposes or other state-related housing activities. While most of the current proposals call for direct cash transfers, others are less burdensome and therefore have a less dramatic financial impact on the HFA.
- While no state HFA Issuer Rating or bond rating was downgraded in 2002 as a result of these raids, the risk of downgrades is far greater this year given the magnitude of fiscal imbalance for many states and the unprecedented challenges facing HFAs at this time. These HFA industry-wide challenges include decreasing asset bases and lower profitability caused in large part to the continuing record-low interest rate environment.
- Because state HFAs are creations of their parent state governments and tend to have healthy fund balances even during recessions, HFAs have often been called upon to help close state budget gaps through the transfer of monies to their state treasuries. In some cases, this money comes from rated single family or multi-family bond programs, and in other instances, the money is transferred from unrestricted and unpledged monies of the state HFA.
- Due to the ever-present risk of state raids, Moody's analyzes the potential of such transfers when assigning Issuer Ratings to state HFAs. Because each situation is unique, Moody's has taken several different actions when making credit decisions resulting from state transfers. These can include capping ratings, assigning negative outlooks, as well as maintaining the status quo.



## Magnitude of State Budget Deficits Cause Greater Reliance on HFAs

Unlike their parent state governments, the financial condition of housing finance agencies has been historically very steady and predictable. As a result, state housing finance agencies tend to have healthy fund balances even during recessions. Consequently, state raids of housing finance agency reserves are an ever-present risk and represent one of the few negative credit factors affecting the otherwise strong credit position of the state housing finance sector.

While many states have counted on their HFAs to help plug projected deficits in the past, today's environment is much more grave. The nation's current economic slowdown has produced plummeting tax revenues over the past two years that have wrought staggering projected budget deficits for many states. Given the continued economic weakness and the concomitant decline in revenues - particularly from securities-related activities, the enormity of many projected state budget gaps for 2003 and 2004 is unprecedented. Fiscal experts have predicted cumulative deficits of over \$50 billion for 2003 and over \$75 billion for 2004.

These economic circumstances, in turn, have increased significantly the reliance of states on their HFAs for help in closing these projected budget gaps. It is therefore not surprising that since the beginning of the year Moody's has been made aware of 12 proposals that if enacted as proposed, would transfer over \$360 million from housing finance agency coffers to their respective state treasuries.

Some of these new transfer proposals would involve funds being withdrawn from rated single family or multi-family bond programs, and in other instances, the money would be transferred from the general monies of the state HFA. While most of the current proposals call for direct cash transfers, others are less burdensome and are likely to have a less dramatic financial impact on those HFAs. In these proposals the state raids take other forms such as having the HFA take on new expenses and responsibilities that the state would have otherwise financed itself. In these instances, monies would not flow from the HFA, rather, the state would not appropriate monies this year that it normally does, leaving the HFA to replace these amounts from internal sources. Still other types of state raids include having the HFA offer a line of credit, or reducing or eliminating state funding to the HFA for certain programs.

### STATE RAID PROPOSALS COME AT A CRITICAL TIME FOR HFAS

While state reliance on housing finance agencies in the past has not been particularly burdensome to the HFAs, this year the industry is having its own stresses affecting the financial strength of many housing finance agencies. Indeed, the past two years of record low interest rates have caused HFA assets to decrease as a result of an unprecedented level of mortgage prepayments and the more competitive nature of mortgage originations. Transferring significant amounts of money from state HFAs this year may hurt their balance sheet and profitability more than ever before. Moody's has already made certain conclusions regarding some of the proposals and is in the midst of reviewing the details of others to determine if these raids will have any negative affect on credit ratings. Although most of the proposed amounts have yet to be finalized, thus far proposals include:

Alaska Housing Finance Corporation	\$75.66 million
Connecticut Housing Finance Authority	\$ 40 million
Hawaii Housing and Community Development Corporation	\$ 14 million
Maine State Housing Authority	\$ 1.9 million
Maryland Housing Fund/Maryland Community Development Admin	\$ 10 million
Massachusetts Housing Finance Agency	\$ 4 million
New Jersey Housing and Mortgage Finance Agency	\$50 million
New York State Housing Finance Agency	\$1.5 million
State of New York Mortgage Agency (Mortgage Insurance Fund)	\$50 million
South Carolina State Housing Finance and Development Authority	\$5.7 million
Virginia Housing Development Authority	\$87 million *
West Virginia Housing Development Fund	\$25 million
	<b>\$364.76 million</b>

\*Face amount of loans to be purchased. Purchase price expected to be discounted.

### Current State Raid Proposals

Below is a list of this year's proposed transfers to date. Since these transfer proposals are a constantly moving target, the ultimate transfer amount is likely to change for many of these state HFAs.

**Alaska Housing Finance Corporation - AHFC** recently submitted a plan to the Legislature that would transfer \$76.55 million from the Corporation's General Fund to the state in fiscal year 2004. This transfer plan was not unexpected as the Corporation regularly sends monies to the State as part of a comprehensive long-term transfer agreement. Given the history of these annual transfers and the existence of the long-term agreement, Moody's does not

believe this latest transfer will affect any of the Corporation's ratings. Last year, the Corporation transferred \$96.3 million to the state for budgetary relief.

**Connecticut Housing Finance Authority - CHFA** is facing the second part of a raid that was negotiated last year that transfers a total of \$85 million over two years from its sole bond program - the Housing Mortgage Finance Bond Program - in exchange for state-owned housing assets. This \$3.1 billion bond program finances both single family and multi-family housing and is rated Aaa. Moody's has determined that the purchase of \$85 million of state-owned assets will not cause a rating downgrade on the program. Any further transfers, however, would need to be analyzed closely to determine the potential credit impact.

**Hawaii Housing and Community Development Corporation** - Because the State of Hawaii did not participate in the robust national economy of the 1990s, the Corporation has been subject to a number of transfers over the last decade totaling more than \$175 million. Another proposal is on the table to transfer a rather modest amount - \$14 million - from various Corporation funds to the State. In addition, the legislature has proposed other transfers but no dollar amount has been associated with those bills. Moody's is carefully monitoring these proposals as we currently have the Corporation's A1 Issuer Rating on watch for downgrade. Last year, the Corporation transferred just over \$25 million to the state for budgetary relief.

**Maine State Housing Authority** - The Legislature has submitted a proposal that may result in a raid of up to \$1.9 million each year over the next two years. Typically, the State realizes HOME funds in the amount of \$9 million each year from real estate transfer taxes. Under the proposed legislation, if HOME funding comes in at less than typical levels, Maine Housing would be expected to maintain funding at the current levels by covering the expense of a homeless shelter program. The maximum amount that the Authority may be expected to fund is \$1.9 million per year in fiscal years 2004 and 2005 as the State plans to take the first \$7.5 million of HOME funds in those years. If HOME funding comes in at historical levels, the Authority should receive HOME funds for the shelter program as has been the case in the past. The Authority reports that any funding it is asked to make will come from General Funds of the Authority. If this occurs, Moody's does not believe it will have an impact on the Authority's Issuer Rating.

**Maryland Housing Fund/Maryland Community Development Administration** - The Legislature has proposed transferring \$10 million from the Maryland Housing Fund's Unallocated Reserves to the State. The Maryland Housing Fund (MHF), a sister agency to the Maryland Community Development Administration (CDA), provides mortgage insurance for single family and multi-family loans, most of which are bond financed through the Maryland Community Development Administration. The proposal leaves intact all of the monies held in MHF's specific Multi-family and Single Family Reserves as well as a portion of the monies in the Unallocated Reserve. Given the level of MHF's remaining reserves and the financial strength of CDA's Single Family Program Bonds and Multi-family Housing Revenue Bonds (Insured Mortgage Loans) which rely on the Maryland Housing Fund, Moody's does not believe that the Aa2 ratings on these two programs would be negatively affected.

**Massachusetts Housing Finance Agency** - Massachusetts HFA is expecting the Commonwealth to withhold its annual SHARP payments to the Agency which was to be approximately \$4 million. This decrease in state appropriations is not expected to affect either the Agency's bond ratings or its Issuer Rating as the SHARP subsidies have been declining over time and the Agency has established sufficient reserves for the eventual termination of the SHARP subsidies within the next couple of years.

**New Jersey Housing and Mortgage Finance Agency** - New Jersey's HFA has already transferred \$25 million to state coffers in fiscal year 2003 and may be facing another \$25 million raid for fiscal year 2004. According to the current proposal, the additional \$25 million would be used for housing purposes at the state level, in keeping with Agency's mission. We expect that the funds will come from general Agency reserves, rather than bond related reserves. New Jersey Housing and Mortgage Finance Agency's Issuer Rating stands at Aa2 with a positive outlook. Given the strength of the Agency's financial position, even if the entire \$25 million is utilized, Moody's does not believe that Aa2 Issuer Rating will be negatively affected. These two \$25 million transfers are in addition to the \$25 million transferred to the state last year for fiscal year 2002 budgetary relief.

**New York State Housing Finance Agency** - For the second consecutive year, New York State HFA has funded the Small Cities Program in the annual amount of \$1 million, a program that has historically been funded through regular state appropriations. NYS HFA reports that it is expecting to fund the program again in fiscal year 2003/2004. The Agency is also expecting to be given the responsibility of funding a \$500,000 capital grant program that it has been administering but had previously been funded by the State through its Division of Housing and Community Renewal. Last year, the State relied on HFA for \$50 million of budgetary relief in addition to its \$1 million funding of the Small Cities Program.

**State of New York Mortgage Agency** - Subject to legislative approval, the New York State Executive Budget proposal authorizes the State of New York Mortgage Agency's (SONYMA) Mortgage Insurance Fund (MIF) to provide credit enhancement to the proposed Tobacco Settlement Financing Corporation. This new public benefit corporation is expected to be created in order to securitize New York State's future share of tobacco settlement monies. The

MIF currently insures single family and multi-family loans and is used extensively as credit enhancement on SONYMA's single family bond programs as well as a number of multi-family bond issuers including the New York State Housing Finance Agency. The amount of credit enhancement, if any, and how it would be funded is not yet clear but is expected to be at least \$50 million. SONYMA is looking to structure any such credit enhancement so as to not affect the Fund's ratings. While recent legislative negotiations make the Mortgage Insurance Fund's involvement less likely, nothing has yet been finalized. Last year, the Agency transferred \$150 million of MIF monies to the State for budgetary relief.

**South Carolina State Housing Finance and Development Authority** - For fiscal year 2004, South Carolina's House has passed a bill that would transfer \$5.7 million from the state's Housing Trust Fund - a Fund that resides with the State Treasurer. The proposal is currently awaiting Senate approval. The Authority receives monies from a percentage of the documentary stamp tax relating to real estate transactions within the State which are deposited into the Housing Trust Fund. This Fund is specifically segregated on the Authority's financials and is used for designated affordable housing projects and is not available for other purposes of the Authority. Moody's does not take these monies into account when assessing the issuer credit rating so there should be no impact on the Authority's Issuer Rating. Last year, the Authority transferred \$2.5 million of restricted assets to the state for budgetary relief.

**Virginia Housing Development Authority** - VHDA has committed to buying a portfolio of \$87 million face amount of loans from the Commonwealth at a price to be determined utilizing a third party evaluator. VHDA originated and continues to service these loans on behalf of the Commonwealth. These loans, however, are primarily very low-rate, high-risk, multi-family and single family loans, and accordingly the purchase price is expected to be at a discount. VHDA may issue taxable bonds to finance the acquisition of these loans.

**West Virginia Housing Development Fund** - West Virginia's HFA has been asked to fund a \$25 million economic development program for the state. According to WVHDF, the program will likely be financed through the issuance of WVHDF general obligation bonds and repaid over ten years. Despite this proposal, Moody's expects WVHDF to maintain its Issuer Rating of Aaa. Last year, the Fund transferred \$5 million to the state for budgetary relief.

## Conclusion

The dramatic increase in state raids on HFAs over the past two years has not been unexpected. Moody's had anticipated that these types of raids on state HFAs would likely result from the budgetary pressures of the weakening national economy and the effects of the September 11th terrorist attacks. As stated in our October 2001 Special Comment on the Housing Bond Sector, "Moody's believes that the risk of future state raids has increased this year given the nation's weaker economy." Indeed, Moody's expects to see more state raid proposals as more states finalize their budgets. Moody's will review each transfer to determine what actions, if any, to take on single family and/or multi-family bond ratings, or in some cases, state HFA Issuer Ratings. This year's raids, however, come at a critical time for many state HFAs as they struggle with dwindling assets and lower profitability. Hence, the possibility of downgrades this year is far greater than at any other time in history.

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