

LEG. FINANCE - BILLS 1977 - 1978 962

SB 429 cont.

Divisions of

	<u>Total</u>	<u>Loan Programs</u>	<u>Collections</u>	<u>Renewable Resources</u>	<u>Treasury</u>
100 Personnel	\$1,259,145	\$281,250	\$254,700	\$185,520	\$ 537,675
200 Travel	94,700	17,300	35,600	17,600	24,200
300 Contractual	879,200	89,000	64,000	214,000	512,200
400 Commodities	20,100	5,000	5,000	5,000	5,100
500 Equipment	67,500	20,000	25,000	15,000	7,500
600 Land	<u>216,100</u>	<u>60,000</u>	<u>60,000</u>	<u>50,000</u>	<u>46,100</u>
Total	<u>\$2,536,745</u>	<u>\$472,550</u>	<u>\$444,300</u>	<u>\$487,120</u>	<u>\$1,132,775</u>

Division of Alaska Loan Programs - Alaska Loan Fund

100 - Personnel

	Director - Range 27	\$3,752	\$ 56,280
	Secretary I - Range 10	1,194	17,910
	Accountant IV - Range 18	2,082	31,230
2	Loan Examiner IV's - Range 20	2,411	72,330
1	Loan Examiner III - Range 19	2,243	33,645
1	Loan Examiner II - Range 17	1,934	29,010
1	Loan Examiner I - Range 15	1,668	25,020
1	Clerk Typist III - Range 8	1,055	15,825
			<u>\$281,250</u>

200 - Travel

	6 trips per year for 5 loan examiners	\$ 4,500
	12 trips per year for 1 Director in Alaska	1,800
	4 trips per year for 1 Director Outside of Alaska	2,400
	Per Diem for Loan Examiners - 4 days/trip 6 trips 5 @ \$50.00	6,000
	Per Diem for Director - 3 days/trip 12 trips in Alaska	1,800
	Per Diem for Director - 4 days/trip 4 trips Outside Alaska	800
		<u>\$ 17,300</u>

300 - Contractual

	Consulting	\$ 25,000
	Telephone	20,000
	Postage	3,000
	Printing/Advertising	10,000
	Auditing	20,000
	Equipment rental	8,000
	Miscellaneous	3,000
		<u>\$ 89,000</u>

400 - Commodities

\$ 5,000

500 - Equipment

\$ 20,000

600 - Office Space

\$ 60,000

Division of Collections

100 - Personnel

Director - Range 27	\$ 3,752	\$ 56,280
Secretary I - Range 10	1,194	17,910
Accountant IV - Range 18	2,082	31,230
Clerk III - Range 8	1,055	15,825
Collection Officer IV - Range 20	2,411	36,165
Collection Officer III - Range 18	2,082	31,230
Collection Officer II - Range 16	1,798	26,970
Collection Officer I - Range 14	1,551	23,265
Clerk Typist III - Range 8	1,055	15,825
		<u>\$254,700</u>

200 - Travel

24 trips per year for 4 collection officers in Alaska	\$ 14,400
4 trips per year for Director Outside of Alaska	2,400
12 trips per year for Director in Alaska	1,800
Per Diem 24 trips 3 days/trip for 4 officers	14,400
Per Diem 4 trips 4 days/trip for Director	800
Per Diem 12 trips 3 days/trip for Director	1,800
	<u>\$ 35,600</u>

300 - Contractual

Telephone	\$ 20,000
Postage	3,000
Printing/Advertising	10,000
Auditing	20,000
Equipment rental	8,000
Miscellaneous	3,000
	<u>\$ 64,000</u>

400 - Commodities \$ 5,000

500 - Equipment \$ 25,000

600 - Office Space \$ 60,000

Division of Renewable Resources

100 - Personnel

Director - Range 27	\$3,752	\$ 56,280
Secretary I - Range 10	1,194	17,910
Accountant IV - Range 18	2,082	31,230
Loan Examiner IV - Range 20	2,411	36,165
Loan Examiner II - Range 17	1,934	29,010
Clerk Typist II - Range 7	995	14,925
		<u>\$185,520</u>

200 - Travel

12 trips per year for Director in Alaska	\$ 1,800
4 trips per year for Director Outside of Alaska	2,400
24 trips per year for 2 loan examiners in Alaska	7,200
Per Diem 12 trips 3 days per trip for Director in Alaska	1,800
Per Diem 4 trips 4 days per trip for Director Outside of Alaska	2,400
Per Diem 24 trips 3 days/trip for loan examiners in Alaska	3,600
	<u>\$ 17,600</u>

300 - Contractual

Feasibility Studies	\$150,000
Telephone	20,000
Postage	3,000
Printing/advertising	10,000
Auditing	20,000
Equipment rental	8,000
Miscellaneous	3,000
	<u>\$214,000</u>

400 - Commodities \$ 5,000

500 - Equipment \$ 15,000

600 - Office Space \$ 50,000

Division of Treasury

100 - Personnel

Director - Range 27	\$3,752	\$ 56,280
Comptroller - Range 24	3,239	48,585
Secretary II - Range 11	1,275	19,125
Secretary I - Range 10	1,194	17,910
Accountant IV - Range 18	2,082	31,230
Investment Officer IV - Range 25	3,485	52,275
Investment Officer III - Range 24		48,585
Investment Officer II - Range 22	2,794	41,910
Debt Manager - Range 22	2,794	41,910
Cash Manager - Range 20	2,411	36,165
Investment Accountant - Range 16	1,798	26,970
Accountant III - Range 16	1,798	26,970
Accounting Tech. - Range 14	1,551	23,265
Accounting Clerk III - Range 10	1,194	17,910
Accounting Clerk II - Range 9	1,122	33,660
Clerk Typist II - Range 7	995	14,925
		<u>\$537,675</u>

200 - Travel

Field/Administrative Travel In State	\$ 4,560
Field/Administrative Travel Out of State	3,645
Conventions/Meetings Out of State	1,335
Boards In State	4,030
Per Diem Field/Administrative in State	4,100
Per Diem Field/Administrative Out of State	1,900
Per Diem Conventions/Meetings Out of State	825
Per Diem Boards In State	3,800
	<u>\$ 24,200</u>

300 - Contractual

Communications	\$ 49,200
Printing/Advertising	16,500
Repairs/Maintenance	2,600
Equipment Rental - Other	38,700
Equipment Rental - Word Processing	5,800
Professional Fees/Services	104,600
Professional Fees/Services - Retirement Funds	260,000
Other Fees/Expenses	4,800
Management of Index Fund	30,000
	<u>\$512,200</u>

400 - Commodities

\$ 5,100

500 - Equipment

\$ 7,500

600 - Office Space

\$ 46,100

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M E M O R A N D U M

TO: Commissioner Sterling Gallagher ✓
Department of Revenue

Alaska Housing Finance Corporation
Alaska Municipal Bond Bank Authority

FROM: Wohlforth & Flint

DATE: February 6, 1978

SUBJECT: Senate Bill 429 "An Act Relating to the Alaska Bond Programs Fund, the Alaska Permanent Fund, the Renewable Resources Development Fund, and Other State Revenues; and Providing for an Effective Date".

Pursuant to a request related to us by R. D. Stevenson and Deputy Commissioner Edenso, we submit herewith our analysis of the above bill.

Senate Bill 429 which was introduced in the Senate on January 19, 1978 and referred to the Finance Committee, is an extremely broad ranging bill which, among other things, sets up a new Alaska Loan Programs Fund, sets the deposit rate to the Permanent Fund at 25% of the receipts from the delineated sources, outlines the criteria for investment of Permanent Fund monies and creates various new State classified positions. In establishing the Alaska Loan Programs Fund, SB 429 also effectively wipes out a major portion of the present State loan programs without regard as to whether such programs are being financed directly by the General Fund or through the issuance of tax exempt bonds on the public market. For example, it wipes out or curtails the activities of the Alaska Housing Finance Corporation, the Alaska Municipal Bond Bank Authority, the Alaska Industrial Development Authority and the Veteran's Loan Program among others. It also prohibits municipalities from issuing any revenue bond which would be an industrial development bond under Section 103 of the Internal Revenue Code. This provision, for example, would have prohibited issuance by the

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City of Valdez of the \$1.263 billion Marine Terminal Revenue Bonds issued during 1977, a program which added \$12,630,000 to the City's treasury last year. Further, the bill requires deposit of State funds in Alaska banks which offer the highest bid for State funds and sets some extremely stringent residency requirements on loan eligibility and on hire of residents on projects funded by these loans.

Given the broad scope of the bill, the following is an attempt to review in brief form each section.

AS 45.96.010. PURPOSE: The purpose clause recites that a single loan fund of the State will provide a strong reassurance of repayment of loans and thereby lower the costs of borrowing to the State.

AS 45.96.020. CREATION OF FUND: This section creates the Alaska Loan Programs Fund within the Department of Commerce and Economic Development. Further, within that department there is created a division of Alaska loan programs.

AS 45.96.030. REVENUE BONDING AUTHORITY: This section provides that the State Bond Committee may issue bonds and bond anticipation notes in order to carry out the fund's purposes. The details of the bond provisions which extend through Section 45.96.110 will be left for closer examination if it is anticipated that this concept shows signs of legislative acceptance.

AS 45.96.120. UNALLOCATED RESERVE ACCOUNT: This section creates a special account called the "unallocated reserve account" to secure obligations of the fund. This section provides that the income from the permanent fund shall be paid to the Commissioner of Revenue for the purposes of the account. This section further states that amounts necessary to fund the capital reserve account established under Section 140 of this chapter, the fire insurance and liability reserve account established under Section 160 of this chapter, and the loss reserve account under Section 150 of this chapter, are allocated to those accounts in the amounts certified as necessary for those allocations by the Commissioner of Revenue and are hereby

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appropriated to these accounts. Subparagraph (b) of this section establishes a subaccount called the "general fund contribution account" which consists of the lesser of all revenue from the General Fund from mineral lease rentals, royalty, etc., or any amounts remaining in the General Fund which have not been obligated or for which the appropriation has not lapsed at the end of the fiscal year. The subaccount would be used for any purpose for which the unallocated reserve account may be used subject to legislative appropriation. It should also be noted that subsection (b) is made retroactive to June 30, 1977, pursuant to Section 28 of this Act. The allocation of amounts remaining in the General Fund which have not lapsed at the end of the fiscal year is an unusual form of appropriation which seems hardly consistent with State budgeting procedures and would at best be an uncertain amount depending on lapsed appropriations at the end of the last fiscal year.

AS 45.96.130. DEBT SERVICE RESERVE ACCOUNT: This section mandates that the fund capitalize in each bond issue the maximum permitted reserve fund, currently approximately 15% of the total bond issue under IRS regulations, to secure payment of the obligations being issued. This section is representative of a statutory mandate in connection with the configuration of a financing which should be left to determination at the time of financing within legislative limitations.

AS 45.96.140. CAPITAL RESERVE ACCOUNT; AS 45.-
96.150. LOSS RESERVE ACCOUNT; AS 45.96.160. FIRE INSURANCE
AND LIABILITY RESERVE ACCOUNT. The capital reserve account is created at the time of each issue of obligations in an amount equal to 5% of the obligations issued. The amount is paid into the capital reserve account from the unallocated reserve account. The 5% paid in reserve which is established here is an obvious assumption by someone that this amount would be sufficient to cause bonds of the fund to be marketable. The same 5% reserve is allocated from the unallocated reserve account to the loss reserve account established under AS 45.96.150. I would question what loan loss or bond reserve experience gives rise to the legislative suggestion of the 5% loss reserve account.

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The Commissioner of Revenue is required to replenish the loss reserve from the 1% spread between the rate of interest paid by the borrower and the lending rate. Such a spread except in the case of certain specified "governmental programs" would violate the Internal Revenue Code and Regulations.

AS 45.96.160. The fire insurance and liability reserve account simply provides that the fund may insure loans without requiring proof of insurance against fire and liability if an additional charge of 6/10 of one percent per year is made. I do not see where any amount is allocated to this account, despite the language in Section 120(a).

AS 45.96.170. INVESTMENT OF RESERVE ACCOUNTS: This section provides for investment of the reserve accounts by the Director of the Division of Treasury in certain stated securities and permits investment of the general fund contribution account in obligations of the Loan Programs Fund.

AS 45.96.190. BUDGET; AS 45.96.200. ACCOUNTING. These sections provide for an operating budget from the General Fund and accounting for the fund by the Department of Administration with reporting from the Legislative Budget and Audit Committee to the legislature quarterly.

AS 45.96.210. LOAN PROCEDURES: This section states that the Division of Alaska Loan Programs must establish offices in Juneau, Fairbanks and Anchorage, and provides for loan approval of loans under \$350,000 by the District Director with a committee of two loan officers, while loans over \$350,000 must be approved by a State-level committee.

AS 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE; AS 45.96.230. RENEWABLE RESOURCES LOANS EVALUATION COMMITTEE: These sections set up committees charged with the responsibility for evaluating loans delinquent for a period in excess of 30 days with a view toward renegotiating the loans with alternative terms and conditions where possible, while at the same time protecting the interests of the State. The Director of the Division of Collections in the Department of Revenue and the Director of the Alaska Loan Programs Division sit on both committees;

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the Director of the Division of Economic Enterprises in the Department of Commerce and Economic Development is on the Alaska Loan Programs Evaluation Committee; while the Director of the Division of Renewable Resources Development in the Department of Commerce and Economic Development sits on the Renewable Resources Loans Evaluation Committee. Neither section sets up any guidelines or criteria for renegotiating loans under the respective sections.

AS 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS: This section sets up a division within the Department of Revenue to be headed by a classified employee, range 27. For whatever reason, it is provided that the Director be an attorney licensed to practice in Alaska with at least four years of practice in "business law and business practices". Upon a finding that a delinquent loan should not be renegotiated, and the loan is not brought current within 30 days, the loan is transferred to the loss reserve account and transmitted to the Division of Collections for collection.

AS 45.96.250. LOAN PURPOSES: This section contains the general statement that the fund may make loans for residential housing, commercial purposes, public purposes and education.

AS 45.96.260. RESIDENTIAL HOUSING: This section seems to be an extrapolation of the primary purposes of the Alaska Housing Finance Corporation with special permission to sell loans to the Teachers Retirement Fund or Public Employees Retirement Fund if the borrower is a teacher or public employee.

AS 45.96.270. COMMERCIAL LOANS: This section provides for a wide variety of commercial or other public purpose loans of one type or another. Specifically mentioned are farmers, commercial fishermen, local development companies, child care facilities, loggers, etc. One provision in subsection (2) requires a commercial fisherman to have had a commercial fishing license for three years in order to obtain a loan for the upgrading of his equipment. Also worthy of particular attention is subsection (6) which, along with subsection (9) on small businesses, are broad

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enough to fit in virtually any activity. Finally, under subsection (2) you may note that loans are available to investor-owned public utilities for hydroelectric generation and for water utilities. It is unclear as to whether an investor-owned electric utility generating power by oil, natural gas or coal would be eligible for a loan of this type, and it is unclear whether a sewer utility if investor-owned would be eligible for an Alaska Loan Programs Fund loan. (But the answer is probably no.) Note that the definitions in AS 42.05.701(2)(A) and (C) include all electric utilities and also include sewer utilities. Also noteworthy is the deliberate omission of investor-owned natural gas distribution utilities and telephone utilities from this subsection.

AS 45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES; AS 45.96.290. VOLUNTARY ASSESSMENT ON SALE OF SALMON. These sections provide respectively for certificates of need for child care facilities and assessment of members of an association of licensed fishermen to be benefited by hatchery programs. These sections are interrelated with the loan permissions provided under AS 45.96.270.

AS 45.96.300. PUBLIC PURPOSES: This section is apparently designed to replace the Alaska Municipal Bond Bank Authority. This section provides that the Director of the Division of Alaska Loan Programs shall lend money to municipalities with populations of less than 5,000 and to corporations eligible under subparagraph (d) of this section. These are non-profit corporations either designated as tax exempt under 501(c)(3) and (4) of the Internal Revenue Code or a public corporation or other municipal instrumentality created under AS 29.59.010. This section provides that loans to municipalities should be made through the purchase by the fund of municipal bonds and that loans to non-profit corporations shall be made through revenue bonds issued on behalf of the corporation by the municipality in which the project is constructed. I believe there is a reversal in terms here and that it is intended that the revenue bonds be issued on behalf of the municipality by the corporation. Under this section, loans to municipalities of 5,000 or less population could be made if certified to their legality

by the borough or city attorney or if made outside the municipality by the Department of Law and that the loans be payable within 30 years on an even annual debt service basis. This section further provides that the Director of the Division of Alaska Loan Programs submit a bid for all general obligation bonds offered on a competitive basis by any municipality if the municipality provides its bid form to the Director at least 10 days before opening a bid. This section goes on to provide that the bid be determined on the basis of the Daily Bond Buyer 20-bond average with provisions for various maturities above or below the average depending on the rating of bonds. Bids for revenue bonds under subsection (c) issued on behalf of a non-profit corporation are also required to be submitted by the Director of the Division of Alaska Loan Programs again on a bid basis determined on the Daily Bond Buyer average. This section is objectionable in its design to internalize borrowing by municipalities instead of encouraging borrowing on the ordinary tax exempt market and because there is no apparent rationale for the bid scheme set forth in the statute particularly for revenue bonds. Revenue bonds vary substantially in quality according to the project being financed and no generally applicable bid scheme can be arbitrarily set as is attempted in this section.

AS 45.96.310. DEFAULT ON MUNICIPAL BONDS: This section provides for a default provision for payment of State monies owing to municipalities directly to the fund similar to that contained in the existing Alaska Municipal Bond Bank Authority Act.

AS 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT: This section sets up a reserve from the unallocated reserve account equal to five percent of the obligations issued and sold after July 1, 1978. Again, there is no rationale for the fixing of the percentage necessary to secure the bonds or any flexibility in establishing a different or other percentage depending on bond market conditions.

AS 45.96.330. INDUSTRIAL DEVELOPMENT BONDS: Under this section the fund is to make loans to businesses conducting exempt activities under Section 103(b)(4) and (5) of the Internal Revenue Code either directly or through purchase by the fund of the industrial development bonds

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issued by the State Bond Committee, this section is apparently intended to replace the Alaska Industrial Development Authority.

AS 45.96.350. EDUCATION: This section effectively replaces the present Alaska Scholarship Loan Program, leaving that program with only a grant function. Curiously, it adds the five-year residency requirement of Section 370 as a criteria for grant of a student loan, meaning an Alaska high school graduate would necessarily have to have been a State resident since entering the eighth grade. The former statute simply required residency. Even more curious is the fact that subsection (f) allows a forty percent forgiveness if repayment of the initial sixty percent is made with no delinquency. The former program required five years residency upon completion of the course of study in order to be eligible for the maximum forty percent forgiveness - this program requires no residency for forgiveness purposes.

AS 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS: This section provides, in addition to Section 270, loans to businesses involved in the tourist industry. It also provides loans under certain conditions for historical structures, but fails to mention open space loans specifically.

AS 45.96.370. ELIGIBILITY: This section bears careful reading as it proposes a five-year residency requirement in order to be eligible to apply for a loan. In addition, one must be 18 years of age, apparently eliminating even applications from 17 year old students. A corporation must have 60 percent of its shareholders with five-year Alaska residency and must have a board of directors and chief executive officer each of whom have been residents of the State for at least five years. Should any of these criteria as to a corporation fail (e.g., board of director member moves outside the State while he continues to serve) the loan becomes immediately due and payable. In addition, the chief executive officer and board of director members must assume full individual liability for repayment of any loans to the corporation. This section would appear to be extremely onerous, and may very well be unconstitutional as in derogation of the right to travel, etc.

AS 45.96.380. MAXIMUM LOAN AMOUNTS: This section sets up various loan limits including those for residential

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housing and under subsection (b) for commercial loans which may be increased under subsection (c) by bringing more eligible individuals into the project. Perhaps worthy of particular note is subsection (e) which provides that no more than three loans may be made to any person or to any of his "associates". Under this subsection it would appear that the partners in a firm would be limited to three loans between them, while each of their employees might have an additional three loans each. The section also provides for an automatic escalation in loan limits in response to increases in the consumer price index for Anchorage.

AS 45.96.390. AREA COST DIFFERENTIAL. Here a formula based upon both the cost of living and the cost of construction as determined annually by the Department of Transportation and Public Facilities is used to increase the Section 380 limits, which it turns out are intended for the lowest cost areas in the State.

AS 45.96.400. ADDITIONAL LOAN LIMITATIONS: This section provides for the limits previously established to be decreased as much as 50% for those with less than five years experience in the activity for which the loan is made. There appear to be no exceptions. Clearly, this would be difficult to administer and the criteria, of course, may not bear a rational relationship to probable success in a particular business.

AS 45.96.410. VALUE LIMITATION: In this section the loans are further limited to 90% of the appraised value of real property pledged as security for the loan. However, if the loan is for residential housing and is made in an area where FHA mortgage insurance is not available, the loan may be for 95% of the appraised value. Presumably, in areas where FHA mortgage insurance is available the limit reverts to 90%. When equipment is pledged as security the limit is 80% of loan to value.

AS 45.96.420. MAXIMUM TERMS OF LOANS: Loan terms are limited to the useful life of the property. Specific limitations are set at 30 years on a loan secured by real property, 15 years or the life of the equipment on a loan secured by equipment used for production of income and 7

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years or the life of the chattel on a loan secured by other chattels. Working capital loans are for one year.

AS 45.96.430. RATE OF INTEREST: For borrowers other than municipalities the interest rate is set at one percent over the anticipated cost to the fund plus the amount required for necessary insurance. In the case of loans to veterans or loans for agricultural purposes, the rate of interest is reduced by one percent with the difference made up by the veterans or agricultural revolving loan funds. Except for certain specific "governmental programs" the Internal Revenue Code and Regulations prohibit any spread between borrowing and tax exempt lending rates.

AS 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE: This section sets out the criteria for the special interest rates allowed veterans under 430(b) and appears to be similar to those found in AS 26.15, the Alaska World War II Veterans' Act.

AS 45.96.450. EMPLOYMENT PRACTICES: This section provides that in the case of any contracts let by a recipient of a loan from the fund, that the employees on those contracts be 95% residents where they are available and qualified. While not a durational residency requirement as we found in Section 370, this provision may be subject to challenge. See the comments under Section 370.

AS 45.96.460. COOPERATION WITH OTHER AGENCIES: This requires that other State agencies provide information, services and facilities to the fund on request. Presumably, the requirement here is limited to non-confidential data.

AS 45.96.470. BANK PARTICIPATION: Provision is made here for participation in a loan with a financial institution, and for the financial institution to act as an agent for the loan program in the initial processing of applications. Subsection (c), however, appears to allow the participating financial institution to fix the interest charged by it up to the legal limit prescribed by law. It is unclear to us precisely how this would operate.

AS 45.96.480. ASSURANCE REQUIRED: The prohibition set out in this section is that no person who provides services to the borrower in the preliminary phases of a

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project may participate in the implementation stage of the project. While the policy behind this is again unclear to us, it would appear to prevent a consulting engineer or architect who helped to design a project from supervising construction and, likewise, would appear to prevent an attorney from continuing his representation through all stages of a project.

AS 45.96.490. DEFINITIONS: Defines the "fund" and "the loan programs fund" to mean the Alaska Loans Program Fund created by AS 44.96.

Section 2 of SB 429

Section 2 of SB 429 adds a new chapter (AS 37.13) entitled ALASKA PERMANENT FUND. The initial section sets up the Permanent Fund to consist of 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal revenue sharing payments and bonuses received by the State. In AS 37.13.020 the investment criteria are set out in detail. See pages 28 and 39 of SB 429.

Section 3 of SB 429

Section 3, beginning on page 40 of SB 429, adds a new Article 4, Alaska Renewable Resources Development Financial Assistance Program, to AS 37.11. The legislation contains an extensive declaration of policy and legislative findings, creates a Division of Renewable Resources within the Department of Commerce and Economic Development, and sets out the purposes of that division. AS 37.11.150 provides that the receipts of the renewable resources development fund (AS 37.11.020) are appropriated to the new division. The fund receives by statute five percent of mineral lease rentals, bonuses and royalties. Section 160 sets forth the qualifications for the Director, including eight years of administrative or management experience in resource planning or development, etc., and Section 170 sets the compensation, salary range 27. The powers and duties of the Director found in Section 190 include consideration of investment proposals and approval of applications for financial assistance. Eligibility requirements for financial assistance set out in Section 200 include the provision that the

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applicant meet the eligibility requirements for the Alaska Loan Programs Fund.

The new division in Section 200(b) is limited in its investment in a single project without legislative approval to a "combination of equity purchases and interest incentives" of no more than 5% of the annual receipts of the renewable resource development fund or \$1.5 million, whichever is less.

Section 210, Financial Assistance, limits the division's financial assistance to investment in not more than 50% of the capital stock or other ownership interest in a project, provided that the applicant has borrowed the maximum amount allowed by the Alaska Loan Programs Fund first. This provision seems inconsistent with the limitation in Section 200(b). The division may also offer an interest incentive by paying part or all of the interest on loans from the Alaska Loan Programs Fund, but may only give grants for public purposes when the amount of the grant has been included in the "general budget" of the State for the next fiscal year.

Section 220 provides that the division guarantee all loans made to a renewable resource project from the Alaska Loan Programs Fund. Section 230 provides for payment of interest incentives with repayment to begin after net profit is generated by the company. Section 240 sets up a loss reserve account equal to 10% of the estimated total amount of all loans guaranteed by the renewable resources development fund. Investment and accounting provisions are similar to those set up for the Alaska Loan Programs Fund.

Section 4 of SB 429

This section amends the present AS 37.11.060, Fund Principal, by providing that balances remaining in the Alaska Renewable Resources Development Fund at the close of each fiscal year be deposited in the "Alaska Renewable Resources Fund", rather than in the Permanent Fund as in existing law. However, it would appear that this should read "the Alaska Renewable Resources Permanent Fund"; the word "Permanent" found in the present text having been omitted from the bill.

Section 5 to 29 of SB 429

Many of the remaining sections of SB 429 are devoted to altering existing State loan programs so that they continue only to administer existing loans. In some cases, programs are also left with a grant function.

Special note should, however, be made of:

SECTION 13 which adds a new section to Title 29 (29.58.290) which would prevent any municipality from issuing a revenue bond which is an industrial development bond under Section 103 of the Internal Revenue Code.

SECTION 15 which now would allow investment of some treasury surplus in loans made under the Alaska Loan Programs Fund.

SECTION 16 places responsibility for formulating investment policy on the Director of the Division of Treasury and eliminates the present Advisory Committee which had legislative input. The Director must, however, present his policy to the legislature at the beginning of every regular session.

SECTION 20 requires deposit of State funds not being used for specified purposes in Alaskan financial institutions which offer the highest bid for the State funds.

SECTION 21 insures that all four of the new positions set up are in the classified service, and the Governor may not designate them as partially exempt.

SECTION 25 sets up by statute a division of the Treasury in the Department of Revenue, headed by a Director whose qualifications and duties are set out - including investment and management of State funds, etc.

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SECTION 26 confirms that administration of the Alaska Loan Programs Fund and the Renewable Resources Development Fund is by the Department of Commerce and Economic Development.

SECTION 27 is a far reaching section which repeals:

1. Most of AS 03.19 (Alaska Agricultural Loan Act).
2. Parts of AS 14.40.751-806 (Relating to loans under Art. 9 of AS 14.40 - Scholarship Loans and Tuition Grants).
3. Most of AS 16.10.300-370 (Commercial Fishing Loan Act).
4. Major portions of AS 16.10.500-620 (Fisheries Enhancement Loan Program).
5. Most of AS 18.56.010, et seq. (Alaska Housing Finance Corporation).
6. Most of AS 18.100.030, et seq. (Housing Development Revolving Loan Fund).
7. Most of AS 18.100.070 (Senior Citizens Housing Development Fund).
8. Major portions of AS 26.15 (Alaska World War II Veterans Act).
9. AS 37.10.065 (Investment of Alaska Permanent Fund) [replaced by AS 37.13].
10. AS 37.10.075 (b)-(d) (deposit of State funds) [subsection (a) was expanded by Section 20 of SB 429 to require bids, but limits to financial institutions within State].
11. AS 37.10.079 (purchase of bonds).
12. AS 37.11.030 (fund utilization) [this refers to the Alaska Renewable Resources Development Fund which is now covered adequately by the new sections in AS 37.11].

Memorandum
February 6, 1978
Page Fifteen

13. Most of AS 41.22.10, et seq. (Outdoor Recreation, Open Space, and Historical Properties Development Fund).

14. All of AS 40.30 (area redevelopment).

15. Most of AS 44.33.240, et seq. (Child Care Facility Revolving Loan Fund).

16. Most of AS 44.58 (Alaska Municipal Bond Bank Authority).

17. Major portions of AS 44.59 (Alaska State Development Corporation).

18. Major portions of AS 44.60 (Small Business Development Corporation of Alaska).

19. All of AS 44.61 (Alaska Industrial Development Authority).

20. Almost all of AS 45.86 (Water Resources Revolving Loan Fund).

21. Almost all of AS 45.90 (Tourism Revolving Fund).

22. Major portions of AS 45.95 (Small Business Loans).

23. Most of AS 45.98 (Historical District Revolving Loan Fund).

SECTION 28 of the bill makes AS 45.96.120(b) retroactive to June 30, 1977. This is the funding for the subaccount "General Fund Contribution Account". See the discussion above under Section 1.

SECTION 29, the final section, makes Senate Bill 429 effective immediately. The bill will create a complete disruption in the activity of existing loan funds which are operating now on a regular basis as well as the cessation of bond financing activities by the Alaska Housing Finance Corporation which now has outstanding in excess of \$300 million in bonds and notes and other important agencies such as the Alaska Municipal Bond Bank Authority with ongoing

Memorandum
February 6, 1978
Page Sixteen

programs. The findings of the bill do not support a simplistic conclusion that elimination of all bond financing for loans by State agencies and combination of those activities with State general fund lending activities is in the public interest. The bill completely ruptures the pattern of municipal bond financing in the State limiting local powers to finance in the interest of centralization in the State.

From an administrative if not a legal standpoint, it would seem far better to set an effective date of at least 90 days after passage. Ideally, January 1, 1979 or even July 1, 1979, would seem to make more sense for those portions of the Act which will require establishment of a totally new structure. However, it is submitted that the wholesale repealers and transplanting of functions mandated by the bill is not indicated. Rather, any legislative effort should be preceded by careful study of those State lending programs which have succeeded and those which need improvement.

EEW:jr

STATE
of ALASKA

MEMORANDUM

TO:

DATE: February 27, 1978

John Sackett

FILE NO:

FROM: Judy Crondahl 

TELEPHONE NO:

SUBJECT SB-429 Alaska Permanent Fund

The following will be a brief analysis of the Senate Permanent Fund Bill and some of its possible ramifications.

Section 1 of SB-429 ^{1.} establishes the Alaska Loan Program Fund and provides the State Bond Committee with revenue bonding authority "to carry out the fund's purposes". Obligations of the fund would be secured by the establishment of an Unallocated Reserve Account. This account would receive all the income from the 25% Permanent Fund contribution, and other funds as appropriated. In turn it would fund other accounts established to service specific needs of the Revenue Bonds. They are the Fire Insurance and Liability Reserve Account, the Loss Reserve Account, and the Capital Reserve Account. Other expenditures could be made from the Unallocated Reserve Account as appropriated.

There would also be established, as a sub-account of the Unallocated Reserve Account, the General Fund Contributions Account. Its revenue would come from the lesser of two sources: either the revenue of the 40% of mineral lease rentals, royalties, etc. going to the General Fund; or the Unobligated General Fund amounts for which appropriations have not lapsed at the end of the fiscal year. Expenditures from this sub-account would be the same as the Unallocated Reserve Account, subject to appropriation. ^{2.}

The effect of authorizing Revenue Bonds for the Loan Program will be to have a multiplier effect on the available revenues from the Permanent Fund. It is possible that these funds could be increased ten-fold through the sale of Revenue Bonds. At the same time, while the liability of the state is limited in terms of not obligating the full faith and credit nor the taxing power of the state, the revenues and assets of the Loan Program Fund are obligated ^{3.}. As stated earlier, this includes not only the income from the Permanent Fund, but also other funds as appropriated and General Fund amounts automatically appropriated to the General Fund Contribution Account.

The types of loans allowable under the Alaska Loan Program would be of four (or five) major types. They would be for residential housing, commercial purposes, public purposes and education. (Reference Sec. 45.96.250, page 14). A fifth type for tourism, historical and open space loans is included under Sec. 45.96.360 (page 27). These five types increase the scope of the current state loan programs immeasurably. It would appear that there would be very few enterprises not covered by this proposed program ^{4.}.

To administer the Alaska Loan Program there would be established a Division of Alaska Loan Programs in the Department of Commerce and Economic Development and a Division of Collections in the Department of Revenue. Also established in Section 1 of SB-429 would be two evaluations committees. One would be the Alaska Loan Programs Evaluation Committee comprised of the Directors of the two new above-named divisions, and also the Director of the Division of Economic Development. The other committee, the Renewable Resources Loans Evaluation Committee, would be comprised of the two new above-named divisions and the Director of a third new division, the Division of Renewable Resources in the Department of Commerce and Economic Development ⁵.

Section 2 of SB-429 ⁶ establishes the Permanent Fund under AS 37.13. Changes in investment of the Permanent Fund from Chapter 6, SLA 77 ⁷ increase the number of allowable types of investment. It would be advisable to obtain professional opinion as to the relative security of the added types.

Under Sec. 15 of SB-429 ⁸ surplus General Funds are permitted to be invested in all loans under the Alaska Loan Program, rather than just the current agricultural and veteran's loans. This could immeasurably increase the amount of illiquid General Funds.

1. Attachment "A", pp 1-38
2. Attachment "B"
3. Attachment "A", Sec. 45.96.090, page 6
4. Attachment "C"
5. Attachment "A", Sec. 37.11.130, p. 43.
6. Attachment "A", pp. 38-40
7. Attachment "D"
8. Attachment "A", p. 55.



LAWS OF ALASKA

1977

Source

Chapter No.

HB 210

6

AN ACT

Providing for interim management of the Alaska Permanent Fund; and providing for an effective date.

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

* Section 1. AS 37.10 is amended by adding a new section in art. 3 to read:

Sec. 37.10.065. INVESTMENT OF THE ALASKA PERMANENT FUND. (a) The Alaska Permanent Fund consists of 25 per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state. The commissioner of revenue shall deposit in the Alaska Permanent Fund 25 per cent of the receipts from these sources at least once each month. The commissioner of revenue shall invest the money in the Alaska Permanent Fund in income-producing investments of the following types:

- (1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;
- (2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;
- (3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;
- (4) corporate investment-grade securities;

(5) bankers' acceptances drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least \$100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

(b) The commissioner of revenue may enter into contracts providing for custody of securities and execution of transactions.

(c) The commissioner of revenue shall transfer to whatever agency is established for the express purpose of managing and investing the Alaska Permanent Fund all or part of the securities and money in the Alaska Permanent Fund in accordance with Alaska law no later than two weeks after receipt of written notice from that agency.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.10.070(c).

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

March 8, 1978

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811

The Honorable John Sackett
Chairman, Senate Finance Committee
Capital Building
Juneau, Alaska 99811

Dear Senator Sackett:

The Special Committee on the Permanent Fund in the Senate has a bill entitled: "An Act relating to the Alaska Loan Program Fund, the Alaska Permanent Fund, the Renewable Resources Development Fund, and other State revenue; and providing for an effective date." The number of this Senate Bill is SB 429.

The administration has reviewed SB 429 and the following are the recommended amendments that the administration supports for the bill:

1. Section 1 amending AS 45 and adding a new Chapter entitled Chapter 96. ALASKA LOAN PROGRAMS FUND. The administration does not support the creation of this fund and subsequent creation of the new division within the Department of Commerce and Economic Development entitled the Division of Alaska Loan Programs, and the establishment of a new division within the Department of Revenue, the Division of Collections. The administration does support the concept that all loan programs be administered by a single State agency. It is the recommendation of the administration that all existing loan programs making direct loans be administered within the Department of Commerce and Economic Development.

The administration does not support the separation of the collection functions on delinquent loans from the investment function of those agencies making the loans. The separation of the collection function would remove an important element of the investment function (credit evaluation responsibility) from the individuals within the respective agencies making those loans. Further, it would remove the checks and balance the Department of Revenue has in evaluating performance of the lending agencies.

Section 1 in Summary: The administration would support the centralization of all loans in the Department of Commerce and Economic Development. The procedure to follow would be to introduce separate bills with the appropriate language to accomplish the agency transfers. The administration does not support using State debt to provide loan capital for loan programs as provided in SB 429. It is recommended that Section 1 of SB 429 be deleted in its entirety.


2. Section 2. This section creates the Alaska Permanent Fund by amending AS 37 and adding a new Chapter to read: CHAPTER 13. ALASKA PERMANENT FUND. The administration has reviewed this section and supports the principle

March 8, 1978

of allowing the Permanent Fund to be invested in Alaska. The administration finds that it is desirable to provide a separate corporation of the State within the Department of Revenue to provide the administration and management of the Permanent Fund. Further, the administration would support a composition of the Permanent Fund that would contribute 30% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and 100 per cent of bonuses received by the State to the Permanent Fund. The administration recommends that this committee amend Section 2 to create the Alaska Permanent Fund as in the attached draft bill (see Attachment A).

3. Section 3 of Senate Bill 429 creates the Alaska Renewable Resources Financial Assistance program. The administration supports the Alaska Renewable Resources Development Fund. The administration, in keeping with previous stated policy, would support the management of the renewable resources development fund direct lending activity within the Department of Commerce and Economic Development. The investment activity of the surplus funds within the renewable resources development fund should be administered and managed by the Department of Revenue, Treasury Division. The administration recommends that this section of SB 429 be deleted and that a separate bill addressing the Alaska Renewable Resources Development Fund be submitted by the Senate Committee on the Permanent Fund. The administration has not attempted to draft separate legislation on the Alaska Renewable Resources Development Fund and has worked in cooperation with the Subcommittee of the Special Committee on the Permanent Fund in the House on that Committee's proposed legislation for the Alaska Renewable Resources Development Fund. The administration recommends the deletion of Sections 3 through 28 of SB 429.

Sincerely,



Jim Edenso
Deputy Commissioner

JE:ge
Enclosure

ATTACHMENT A

1 PP1, line 3, substitute the following:

2
3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to management of the Alaska Permanent Fund;
7 and providing for an effective date."

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

9 PP 1, line 10, Delete the entire Section 1 and substitute the following:

10 * Section 1. AS 37 is amended by adding a new chapter to read:

11 CHAPTER 13. ALASKA PERMANENT FUND.

12 PP 38, line 6, substitute the following:

13 Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under Art. IX, Sec. 15, of the
14 Alaska Constitution, there is established as a separate fund, in the Department of
15 Revenue, the Alaska Permanent Fund.

16 (b) There is created the Alaska Permanent Fund Corporation, a public
17 corporation of the state. The corporation is an instrumentality of the state
18 within the Department of Revenue but has a legal existence independent of and
19 separate from the state and has continuing succession until its existence is termin-
20 ated by law. The exercise by the corporation of the powers conferred by this
21 chapter is considered an essential governmental function of the state. The
22 corporation shall manage and invest the principal of the permanent fund and shall
23 distribute the income earned from the permanent fund in accordance with the
24 provisions of this chapter.

25 PP 38, line 14, substitute the following:

26 Sec. 37.13.020. COMPOSITION OF THE PERMANENT FUND. The permanent fund
27 consists of 30 per cent of all mineral lease rentals, royalties, royalty sale
28 proceeds, federal mineral revenue sharing payments and 100 per cent of bonuses
29 received by the state. The commissioner of revenue shall deposit in the permanent

1 fund 30 per cent of all mineral lease rentals, royalties, royalty sale proceeds,
2 federal mineral revenue sharing payments, and 100 per cent of bonuses received from
3 these sources at least once each month. Income from investment of the permanent
4 fund does not become a part of the permanent fund and shall be deposited in the
5 general fund annually, except that income in the following amounts may be retained
6 in the permanent fund and used as indicated:

7 (1) the amount needed to pay the operating and administrative expenses
8 of the corporation;

9 (2) any amount allocated to a reserve account established under
10 sec. 110 of this chapter.

11 Add a new section to read:

12 Sec. 37.13.030. PURPOSE OF THE PERMANENT FUND. (a) The purpose of the
13 permanent fund is to provide a means of conserving a portion of the state's revenues
14 from mineral resources to the ultimate benefit of present and future generations
15 of Alaskans. The revenues so conserved shall be invested in income-producing
16 investments which will provide further benefits to present and future generations
17 of Alaskans.

18 (b) Further benefits may be derived through use of the permanent fund to:

19 (1) assist the diversification of the economy of Alaska by making
20 sound investments in Alaska's renewable and non-renewable resources;

21 (2) seek to smooth the cyclical pattern of growth of the Alaska
22 economy;

23 (3) encourage and assist the participation of private capital, from
24 both within and outside Alaska, in private enterprises of benefit to Alaskans;

25 (4) promote the investment of public and private capital for
26 community development purposes;

27 (5) supplement private investment when sufficient private capital is
28 not available on reasonable terms and conditions;

29 (6) seek to preserve the permanent fund capital for future generations

through sound investments in investment grade securities.

(c) The permanent fund shall be guided in all its decisions by the purpose set out in (a) of this section.

Sec. 37.13.040. INVESTMENT OF THE PERMANENT FUND. (a) The permanent fund shall be used only for income-producing investments.

(b) At least 50 per cent of the resources of the permanent fund shall be invested in investment grade securities.

(c) The corporation may invest not more than 25 per cent of the resources of the permanent fund to provide a reasonable proportion of longer-term investment capital for financing the establishment, improvement, and expansion of productive private enterprises which will benefit Alaskans, and for which sufficient capital is not available from other sources on reasonable terms. These investments may take the form of equity, debt, or debt guarantees.

(d) The corporation may invest no more than 25 per cent of the resources of the permanent fund in financing a reasonable proportion of the longer-term investment capital needs for community development projects of municipalities and public corporate entities and private dwellings in Alaska for which sufficient financing is not available from other sources on reasonable terms. These investments may take the form of debt or debt guarantees.

Sec. 37.13.050. PERMANENT FUND POLICY BOARD. (a) There is established the Alaska Permanent Fund Policy Board, consisting of the commissioner of commerce and economic development, the commissioner of revenue, and seven members to be appointed by the governor confirmed by the legislature. The seven appointed members must be Alaska residents and may not be employees of the state. Their term of office is four years, and they may be reappointed. Terms shall be staggered. Initial terms are one year for one member, two years for two members, three years for two members, and four years for two members. Members may be removed for cause. Members may continue to serve until their successors are appointed.

(b) The president of the permanent fund, appointed under sec. 90 of this chapter, shall serve as the chairman of the policy board, but is not a voting member.

(c) A quorum for the transaction of policy board business consists of at least two-thirds of the members. Decisions of the board must be made by a majority vote, including not less than a majority of the appointed members. The board shall hold at least one public meeting each year.

(d) Appointed members of the policy board are not entitled to compensation as such but are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 37.13.060. DUTIES OF THE POLICY BOARD. The policy board shall:

- (1) select and appoint the president and other members of the investment committee;
- (2) annually review and approve long-range operating plans, to include an investment program based on sectoral analysis of the Alaska economy, the budget for the forthcoming year, and the financial plan for the following years;
- (3) have sole responsibility for relations with the general public, legislature, executive, local communities, and special interest groups concerning all matters other than specific investments of the permanent fund;
- (4) review quarterly reports from the investment committee concerning investment decisions and investment supervision;
- (5) review, consider and approve policies;
- (6) review and publish an annual report including financial statements audited by independent outside auditors;
- (7) establish an audit committee, consisting of the commissioner of revenue and other members of the policy board to be designated by the board itself, which shall select the independent outside auditors, and receive all audit reports;
- (8) decide appeals from interpretations of this chapter;
- (9) determine the remuneration and terms of service of the president and other members of the investment committee;
- (10) be prepared to present a complete report of investment programs, plans, performance, and policies to the finance committees of the Alaska Legislature within 30 days after the beginning of each regular session.

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Sec. 37.13.070. PERMANENT FUND INVESTMENT COMMITTEE. (a) There is established the Alaska Permanent Fund Investment Committee, consisting of the president of the corporation, who shall serve as chairman, and four members appointed by the policy board. No member of the policy board may be a member of the investment committee. All members must be Alaska residents, may not be state employees, and must be persons of recognized competence and wide experience in investments, finance, and other business-management-related fields. Members may be reappointed or continue to serve until their successors are appointed.

(b) A quorum consists of four members of the investment committee. All decisions must be made by majority vote.

Sec. 37.13.080. DUTIES OF THE INVESTMENT COMMITTEE. The investment committee has sole responsibility to approve all investment proposals and review all investments in investment grade securities.

Sec. 37.13.090. PERMANENT FUND PRESIDENT. The president of the corporation shall be appointed by the policy board for a term of five years, may be reappointed, and shall serve at the pleasure of the policy board. The president

(1) has sole responsibility for presenting investment proposals to the investment committee;

(2) is responsible for the ordinary business of the corporation and the organization, appointment, dismissal, and remuneration of the officers and staff;

(3) is responsible for making investments in investment grade securities, subject to review by the investment committee;

(4) shall establish and maintain adequate and appropriate organizational, operating, and financial controls.

Sec. 37.13.100. STATUS AND POWERS OF PERMANENT FUND CORPORATION. (a) The Corporation is exempt from the provisions of the Executive Budget Act (AS 37.07). The president, officers, and staff of the corporation are in the exempt service under AS 39.25.

(b) The corporation has all powers necessary to carry out the purposes of

of this chapter including but not limited to the following:

- (1) sue and be sued;
- (2) adopt a seal;
- (3) have perpetual succession;
- (4) adopt and amend policies and operational procedures when not inconsistent with this chapter;
- (5) make and execute contracts and other instruments;
- (6) in its own name, own, exchange, transfer, lease, rent, convey, acquire, or dispose of by other means real and personal property.

Sec. 37.13.110. RESERVES. The corporation may establish, from income derived from its permanent fund reserve accounts to preserve the principal of the permanent fund, consistent with sound financial practices.

Sec. 37.13.120. OPERATIONAL PRINCIPLES. The operations of the corporation shall be conducted in accordance with the following principles:

- (1) the prudent-person rule of investments is applicable; in making investments, the investment committee and staff shall exercise the judgment and care under the circumstances then prevailing which a person of ordinary prudence, discretion, and intelligence exercises in the management of his or her own affairs not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income from them as well as probable safety of principal;
- (2) the corporation may not undertake any financing for which, in its opinion, sufficient private capital could be obtained on reasonable terms;
- (3) the corporation may not assume responsibility for managing any enterprise or project in which it has invested and may not exercise voting rights for that purpose or for any other purpose which, in its opinion, properly is within the scope of managerial control;
- (4) the corporation shall only undertake its financing on terms and conditions which it considers appropriate, taking into account the requirements of the enterprise or project, the participation of other investors, the risks being

undertaken by the corporation and the terms and conditions normally obtained by private investors from similar financing, unless the legislature has appropriated funds for subsidizing investments which, in the opinion of the corporation are of such high priority that special terms and conditions are appropriate;

(5) the corporation may seek to revolve its funds by selling its investments to other investors whenever it can appropriately do so on satisfactory terms;

(6) the corporation shall seek to maintain a reasonable diversification in its investments;

(7) the corporation shall only consider investment proposals after the applicant for an investment has submitted a detailed proposal to the corporation staff, and the staff has prepared a written report recommending the investment after a study of its merits;

(8) the corporation shall make investment decisions with regard to economic and other considerations, including consideration of employment income distribution, environment, health, social, and other factors; the corporation shall be sensitive to the views of affected local communities and shall include an analysis of those views in proposals for large investments;

(9) the corporation may make investments in financial intermediaries in order to facilitate investment by the intermediaries in specific enterprises or projects whose individual financing requirements are not, in the opinion of the corporation, large enough to warrant its direct supervision;

(10) the corporation shall provide for operational and performance evaluations (post-audits) of its investments and investment programs, and report the results to the policy board audit committee;

(11) nothing in this section prevents the corporation, in the event of actual or threatened default on any of the permanent fund investments, actual or threatened insolvency of the enterprise in which the investment has been made, or other situations which, in the opinion of the corporation, threaten to jeopardize

1 the investment, from taking the action and exercising the rights it considers neces-
2 sary for the protection of its interests.

3 Sec. 37.13.130. BORROWING POWERS. The corporation may borrow funds, and,
4 in that connection, may furnish the collateral or other security for them that it
5 determines is necessary.

6 Sec. 37.13.140. REPORTS AND PUBLICATIONS. The policy board shall publish an
7 annual report to the governor, legislature, and the public. Each report must
8 include financial statements audited by independent outside auditors, a statement of
9 the amount of money received by the permanent fund from each source during the period
10 covered, a statement of permanent fund investments, a description of permanent fund
11 investment activity during the period covered by the report, and any other information
12 the policy board believes would be of interest to the governor, the legislature,
13 and the public. The annual income statement and balance sheet of the corporation
14 shall be published in at least one newspaper in each judicial district. The corpo-
15 ration may also publish other reports it considers desirable to carry out its purpose.

16 Sec. 37.13.150. TECHNICAL ASSISTANCE. (a) The corporation may provide
17 financing for pre-investment activities including feasibility studies, when, in its
18 opinion, the proposed investment is of high priority and the financing is not
19 available from other sources on reasonable terms and conditions. Amounts so
20 advanced may form a part of a later investment, if the enterprise or project is
21 financed by the corporation.

22 (b) The corporation may provide for technical and management advice and
23 assistance to proposed and actual investments as it considers necessary in the
24 circumstances.

25 Sec. 37.13.160. CONFLICT-OF-INTERESTS POLICIES. Members of the investment
26 committee shall disclose their financial interests in an investment proposal and dis-
27 qualify themselves from voting on any investment proposal in which they have
28 financial interests. Members of the policy board shall refrain from all attempts to
29 influence the investment committee, president, officers and staff in the discharge

of their ordinary operating duties. The president, officers, and staff of the corporation, in the discharge of their offices, owe their duty entirely to the corporation and no other authority.

Sec. 37.13.170. CONFIDENTIALITY OF INFORMATION. Information in the possession of the corporation which discloses the particulars of the business or affairs of a private enterprise or private investor is not a matter of public record, except for purposes of investigation and law enforcement. The information must be kept confidential except when its production is required in an official investigation or court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 37.13.180. TAX EXEMPTION. The corporation is a public corporation and is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state.

Sec. 37.13.900. DEFINITIONS. In this chapter, unless the context requires otherwise

(1) "corporation" means the Alaska Permanent Fund Corporation created by sec. 10(b) of this chapter;

(2) "investment committee" means the Alaska Permanent Fund Investment Committee created by sec. 70 of this chapter;

(3) "investments" includes equity, debt, and debt guarantees;

(4) "permanent fund" means the Alaska Permanent Fund created under authority of Art. IX, sec. 15, of the Alaska Constitution;

(5) "policy board" means the Alaska Permanent Fund Policy Board created by sec. 50 of this chapter.

* Section 2. AS 39.25.110 is amended by adding a new paragraph to read:

(21) members of the policy board and investment committee, and the president, officers, and staff of the Alaska Permanent Fund Corporation.

* Section 3. AS 39.50.200(9) is amended by adding a new subparagraph to read:

(MM) Alaska Permanent Fund Policy Board and Alaska Permanent Fund Investment Committee.

* Section 4. Investments outstanding as of the effective date of this Act, made from money in the Alaska Permanent Fund, shall be transferred to the corporation established by AS 37.13.010(b), enacted in sec. 1 of this Act.

* Section 5. This Act takes effect immediately in accordance with AS 01.10.070(c).

Delete Sec. 2 through Sec. 29.

HB 298

Permanent Fund

HB 298

Called upon to help the
AS + Gov. bills.

① Address default problem - on Municipalities.

② HB 298: By state investment advisory committee.

50% of annual; 100% bonuses.

✓ 30% private sec. 40% bridge sec.

30% municipal

1997 Cap. Survey: \$2.5 billion

300 million investment

Charles a Corporation

✓ Policy Board

appt. president

Investment Committee

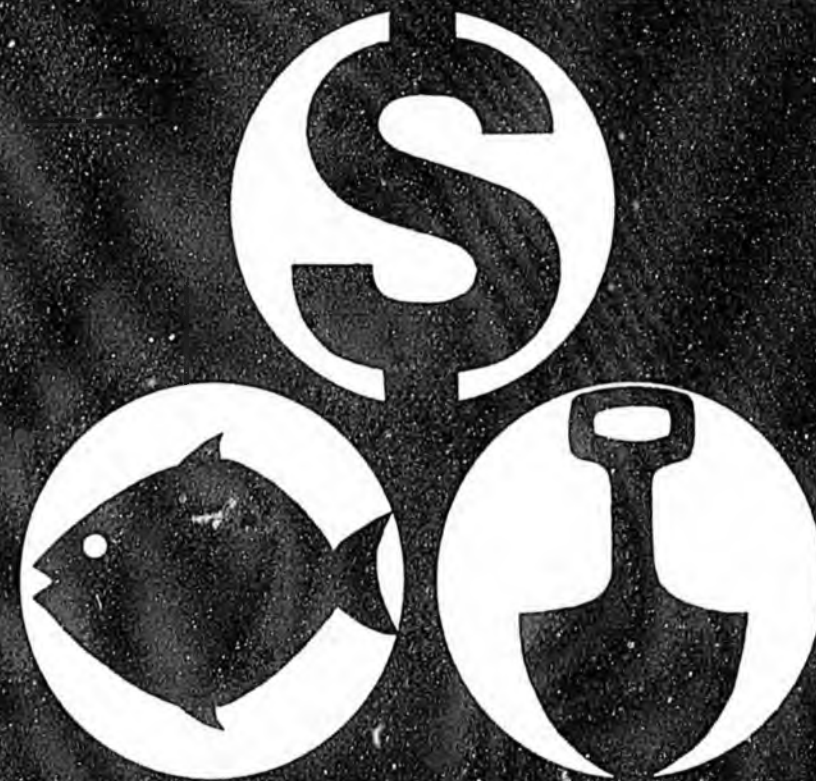
Disruptors = Old management "personnel debt"
Sinking bonds may be in years.
Tech services [I should comment].

Special Committee on the Alaska Permanent Fund
Pouch V
Juneau, Alaska 99811



A Proposal for the Alaska Permanent Fund

Final Report by the House Special Committee on the Alaska Permanent Fund



Rep. Clark Gruening, Chairman
Rep. Terry Gardner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins

Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

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Appendix

The following may be found in
the appendix to this report:

Reports

"Thinking About the Alaska Permanent
Fund: A Cautious Approach for Alaskan
Policymakers," by Belden Daniels.

"Models and Options for the Alaska
Permanent Fund: Functions, Regionalization and
Accountability," by Belden Daniels.

"Economic Considerations in the
Establishment of Alaska's Permanent Fund," by
Arlon Tussing.

"Report on Trust Funds," by White, Weld
and Company.

"The Role of the Permanent Fund in
Alaska's Future," by the House Special
Committee on the Permanent Fund.

Transcripts

Committee Meeting, July 13, Anchorage.
Symposium, September 19, Anchorage.
Public Hearing, September 14,
Fairbanks.
Public Hearing, September 15,
Anchorage.
Committee Meeting, November 18,
Anchorage.

Minutes

Committee Meeting, July 14, Anchorage
Public Hearing/Committee Meeting
September 17, Kotzebue.
Public Hearing/Committee Meeting,
October 20-21, Juneau.
Committee Meeting, November 19,
Anchorage.
Committee Meeting, December 12-13,
Anchorage.

Memoranda

Revenue Projections, Legislature Affairs
Research.
Revenue Projections, Division of
Legislative Finance.
Questionnaire Returns.
Index to Committee Files (Documents
listed in the index are available upon
request).

Written Testimony

Various

Proposed Legislation

On the Alaska Permanent Fund
On the use of Alaska Permanent Fund
earnings
On the Renewable Resources
Development Fund (work draft)

II What the public said

In an attempt to determine what Alaskans thought about the permanent fund, the committee engaged in a wide-ranging program of public participation. This program included the mailing of the committee's preliminary report, which contained a questionnaire to be filled out and returned; a symposium on goals of the permanent fund in Anchorage, cosponsored by the National Endowment for the Humanities and the Alaska Humanities Forum; public hearings in Anchorage, Fairbanks, Kotzebue and Juneau; and participation with the Alaska Public Forum in its questions on the permanent fund.

The committee received various proposals for use of permanent fund money. Everything from preserving artifacts to tracking whales was suggested. But several general points emerged from the public participation process.

First, the permanent fund was created as a depository for mineral revenues in excess of current state needs.

Second, the mineral revenues put into the permanent fund (the principal) should stay there and not be dissipated by using it to pay for the operations of state government or by investing it unwisely.

Third, where there are sound investments in Alaska the permanent fund should make them

without duplicating financial services already available.

Fourth, money earned by permanent fund investments (the earnings) should be used for the identifiable benefit of current and future Alaskans.

Fifth, the management of the permanent fund should be insulated from politics but should be accountable to the public.

Sixth, the management of the permanent fund should not make decisions properly made through the political process.

These general points guided the committee as it worked on its proposal for permanent fund enabling legislation.

In addition, the public made two main points on how it wanted state government to assist it in shaping the future Alaska.

First, state government should provide sufficient funds and programs for the proper development of renewable resources.

Second, state government should provide sufficient funds and programs for the development of alternate energy.

Again, these two main points guided the committee as it worked on its proposal for permanent fund enabling legislation.

X The Renewable Resources Development Fund

In addition to its duty to review and propose permanent fund enabling legislation, the committee is responsible for providing for enactment of the Renewable Resources Development Fund (RRDF).

The RRDF, passed by the legislature in 1974, receives not less than 5 per cent of the receipts from bonuses, rentals and royalties for the rehabilitation, enhancement and development of renewable resource programs.

The committee formed a subcommittee to examine the RRDF. The subcommittee's work over the interim culminated in a work draft which will be taken up once again by the committee when the Tenth Alaska Legislature convenes.

The work draft sets up a corporation, called the Alaska Renewable Resources Corporation (ARRC). The corporation is an independent, non-taxable public corporation managed by a three-member board of trustees. Trustees are appointed by the governor and confirmed by the legislature for four-year terms. They are full-time and

salaries. Trustees are empowered to employ an executive director and staff. They also are empowered to render financial assistance within the constraints set in the work draft.

The corporation is designed to give grants, loans, loan guarantees and other financial assistance to projects and programs that identify and demonstrate new products, markets and technologies in renewable resources.

The corporation is subject to the same conflict of interest and reporting requirements as the permanent fund corporations.

The corporation's purpose is to provide financial and technical assistance to projects and programs that are of higher risk than is acceptable to private financial markets. It is the "leading edge" of the state's efforts to develop viable, stable renewable resource businesses and to provide financing for commercial, traditional and common uses of the state's renewable resources.

XI Summary

The House Special Committee on the Permanent Fund's efforts will result in three bills as described previously. One will establish the Alaska Permanent Fund Corporation, the Alaska Enterprise Investment Corporation and the Investment Oversight Committee. The second will provide for the use of the permanent fund's earnings. The third will establish the Alaska Renewable Resources Corporation. As yet undecided is a fourth bill on formula budgeting.

The committee's package aims at four goals: First, to be consistent with the constitutional amendment and statute creating the RRDF.

Second, to be responsive to public desires and consultant advice.

Third, to insure that the public will remain informed about the activities of its permanent fund and RRDF managers.

Fourth, to fit the permanent fund and RRDF into the existing public financing structure.

In accomplishing this last goal, the committee's proposals seek to avoid both unnecessary risk to the permanent fund and duplication of existing financial services.

In looking at the structure of public finance with the committee's proposals included (Chart 5), it is convenient to divide it into three risk categories; high risk, medium risk and low risk.

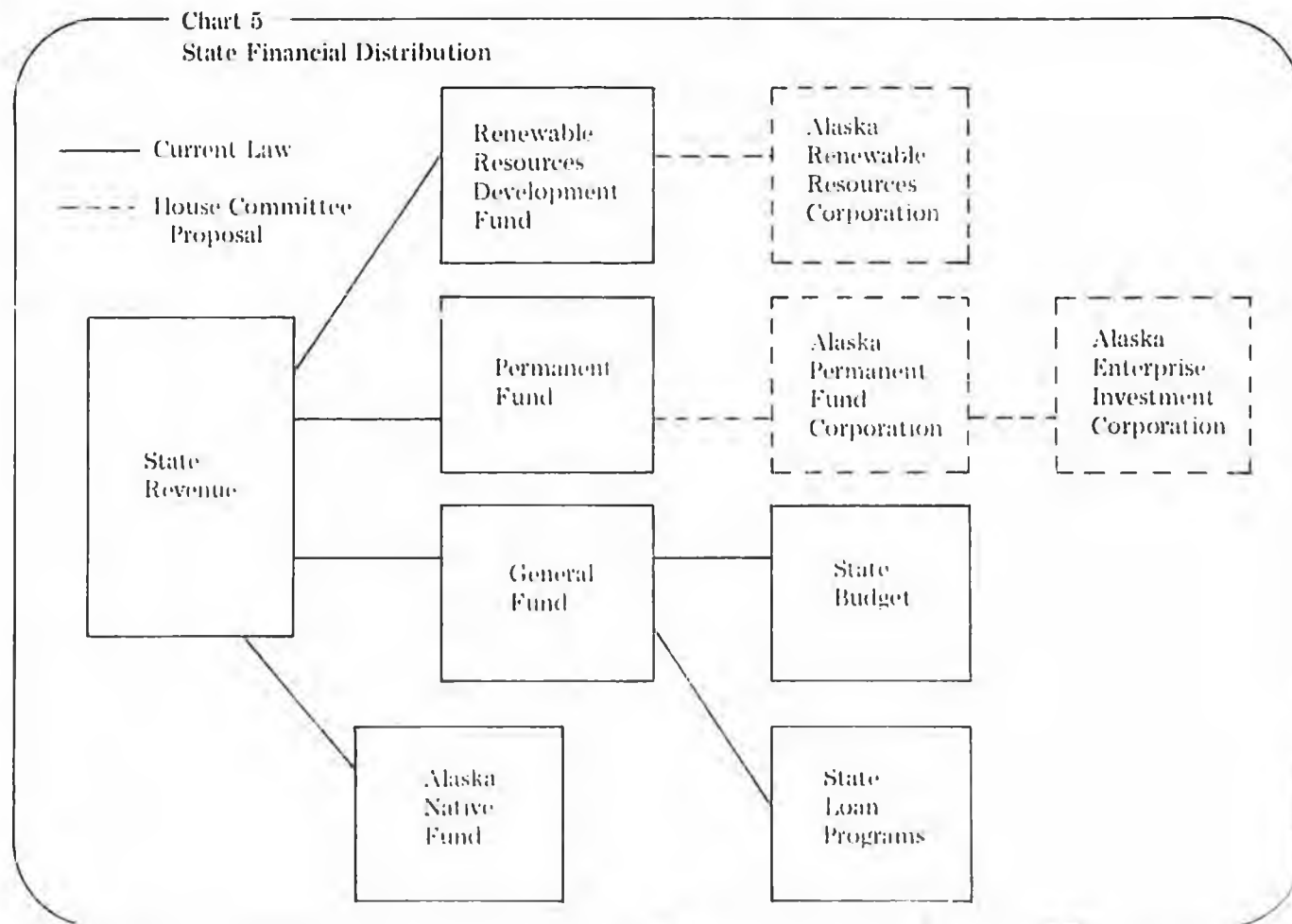
High risk would include portions of the general fund's budget and loan programs and part of the Alaska Renewable Resources Corporation.

Medium risk would include portions of those listed above and part of the Alaska Enterprise Investment Fund.

Low risk would include the Alaska Permanent Fund Corporation, part of the AEIC, and some state loan programs.

This then, is the House committee's proposal, to provide for public purposes with public funds from high risk to low.

The committee welcomes any comments you might have on its proposals or any proposals of your own. You can write to the House Special Committee on the Permanent Fund, Pouch V, Juneau, 99811.



I Introduction

In November 1976 Alaskan voters overwhelmingly approved an amendment to Section 15, Article IX of the state constitution creating the Alaska Permanent Fund.

The amendment reads:

"At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds federal mineral revenue sharing payments and bonuses received by the State of Alaska shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law."

The amendment defines the permanent fund in broad terms. It leaves to the legislature and the governor the task of refining the fund: what it is, what it does and how it works.

These refinements will be contained in the permanent fund enabling legislation passed by the House and Senate and approved by the governor.

The House Special Committee on the Permanent Fund was created during the past legislative session to consider proposed permanent fund enabling legislation and to propose its own enabling legislation. The committee has been working during the interim to determine what Alaskans see as the permanent fund's goals and how to best achieve those goals.

(For a more complete history of the Alaska Permanent Fund, see the committee's preliminary report, *The Role of the Permanent Fund in Alaska's Future*.)

When the second session of the Tenth Legislature convenes (in January 1978), the committee intends to hold public hearings on its proposed permanent fund enabling legislation.

This report is intended to review what the committee has done and what its proposed enabling legislation will do about the Alaska Permanent Fund.

IV What the committee did

While gathering public opinion and professional advice, the committee began working on its proposal for permanent fund enabling legislation. This work focused on five main questions.

First, how much money should be put into the permanent fund?

Second, what should be the fund's financial goals?

Third, how should the fund be managed?

Fourth, how should fund managers be made accountable to the public?

Fifth, what should be done with the earnings of the fund?

V How much money should be put into the permanent fund?

The constitutional amendment requires that at least 25 per cent of the specified revenues be put into the permanent fund. This means, obviously, that more money could be put into the fund. But, in all probability, at least a portion of the specified will be needed to finance state government.

In the foreseeable future the vast majority of permanent fund dollars will come from the fund's share of the state's 12½ per cent royalty share of Prudhoe Bay oil. While the committee was working, projections of revenue from this source turned downward.

This downturn was caused primarily by two events.

First, the explosion at Pump Station 8 limited the amount of oil flowing through the trans-Alaska pipeline. This, in turn, limited the amount of oil the state received as its royalty share. It is estimated that Pump Station 8 will be repaired by March 1978. But until it is repaired the state's royalty share will be roughly half of what had been anticipated.

Second, the rejection of the Interstate Commerce Commission's interim pipeline tariff put into effect substantially higher tariffs requested by the trans-Alaska pipeline's owners.

The tariff is the fee charged by pipeline owners to transport oil through the pipeline. The higher the tariff, the lower the profit per barrel of oil for the owner of the oil. With the exception of the State of Alaska, the owners of Prudhoe Bay oil also are the owners of the trans-Alaska pipeline. So, the interim tariff rejection means that the state must pay an additional \$1.35 per barrel, on the average, to transport its oil through the pipeline. The result: the state loses an average of \$1.35 per barrel profit on its royalty share of Prudhoe Bay oil.

Higher tanker charges and unanticipated field treatment charges also may reduce the state's profit on its royalty oil.

This downturn of revenue from Prudhoe Bay has had a similar effect on the state's general fund, creating a deficit in anticipated revenue for the current fiscal year of between \$50 million and \$100 million as of this writing.

Adjustments in the state's oil taxation policy could help offset this general fund revenue deficit. But such adjustments would not make more money available to the permanent fund since tax revenues cannot go into the permanent fund.

VIII How should the fund managers be made accountable to the public?

Since the permanent fund is public money, the committee realized the need for those who managed it to be accountable to the public for their actions. So the committee's proposed permanent fund enabling legislation includes several provisions designed to insure that accountability.

First, members of the APEC board of trustees and the AEIC policy board are appointed by the governor and confirmed by the legislature. This insures that the public's elected representatives must be sure that members of the boards are qualified.

Second, the proposal requires that both corporations report directly to the public in plain English what they have done and why during each year.

Third, all board members and employees of both corporations are subject to the state's conflict of interest law.

Fourth, both corporations are constrained in several ways by the provisions of the committee's proposal.

Fifth, the committee's proposal creates an Investment Oversight Committee (IOC) of the legislature, designed to monitor the activities of both corporations and all other agencies of the state which perform lending, borrowing or investment functions (this would include the Renewable Resources Development Fund, the existing state loan programs and the Department of Revenue).

The IOC is composed of eight members: the President of the Senate, the Speaker of the House and three members appointed from each house. At least one member from each house shall be a minority member.

In addition to its monitoring responsibilities, the IOC must report to the legislature its recommendations regarding the confirmation of suggested appointees.

IX What should be done with the earnings of the fund?

The permanent fund will produce earnings from both corporations. The committee found during its public participation process that demands on these earnings are infinite. Revenue/expenditure projections indicate that the permanent fund will not produce sufficient earnings to provide money for all the suggested projects and programs. (Under the most optimistic projections, at a highly optimistic rate of return of 10 per cent, the permanent fund will return \$150 million in 1985. This is between one-fifth and one-sixth of the current fiscal year's budget.)

The committee has chosen to introduce a separate piece of legislation providing for the use of the permanent fund's earnings. Based on the public's demand for funds for energy, the committee's proposal is to use permanent fund earnings as a guarantee for bonds issued by governmental agencies for power projects.

Guarantees are a commitment to pay any default on interest or principal payments on

bonds. Once the government agency issuing the bonds makes these payments, the portion of permanent fund earnings used as the guarantee would be freed and flow to the permanent fund or general fund.

The committee's recommendation is that the earnings be returned to the permanent fund. Unless this or some other recommendation is approved, the earnings, under the constitutional amendment, will go to the general fund.

This proposal, according to financial advisors, would draw more private money at lower rates to Alaska for power projects. It would not expose the fund's earnings to excessive risk of loss due to default.

The committee's use of earnings proposal is an attempt to assist Alaskans in the creation of power projects. It also is a discussion proposal, designed to spark further debate in the legislature and throughout the state on what Alaskans want permanent fund earnings to accomplish.

III What the consultants said

In conjunction with its public participation program, the committee hired consultants and lured advisors to assist it.

The consultants were Dr. Belden Daniels of Harvard University's Department of City and Regional Planning; Dr. Arlon Tussing, Dr. Scott Goldsmith and Lee Gorsuch of the University of Alaska's Institute for Social and Economic Research; the financial consulting firm of White, Weld and Company; the financial management consulting firm of Price Waterhouse and Company.

The advisors were Dr. Donald Gordon of Simon Fraser University; Dr. Barbara Bergman of the University of Maryland; Robert Blixt, executive secretary of the Minnesota State Board of Investment; Terry Magrath of Fidelity Management; and representatives of Manufacturers Hanover Trust.

Additional assistance and advice were gathered from state offices and agencies, particularly the Legislative Affairs Agency. The committee also drew heavily upon previous work done by the State Investment Advisory Committee.

In order to keep this report as concise as possible, no detailed explanation of the advice of every consultant and advisor is offered here.

Rather, a brief summary of the main points of consensus illustrates the principles that guided the committee.

First, the permanent fund is not necessarily a vehicle for financing major commercial or industrial enterprises in Alaska. Such enterprises, if sound, will receive financing from existing sources. If they are not sound then they are not proper investments for the permanent fund. In some cases it may benefit the state to offer guarantees for the financing of projects, but such policy decisions properly are made through the political process.

Second, the permanent fund cannot create sound enterprises. If other factors are adverse (lack of market, product cost) permanent fund investment will not help.

Third, financially sound small and medium scale enterprises, particularly in rural areas of Alaska, might be proper permanent fund investments because they may not be receiving money from existing sources due to institutional barriers (lack of knowledge, distance).

Fourth, permanent fund managers ought to be allowed maximum latitude for making specific investments consistent with policy direction.

Fifth, permanent fund managers ought to be accountable to the public through the legislature and governor and through public reporting requirements.

These powers include hiring an executive director and approving staff, as well as contracting with private firms.

The constraints on the trustee are as follows: They must manage the corporation's assets prudently and maintain a reasonable diversification of investments. They may not borrow money or provide loan guarantees. Their investments must be income producing and are limited to U.S. government guaranteed bonds, first mortgages and corporate stocks and bonds. No more than 30 per cent of the corporation's assets may be invested in stocks. The trustees are subject to public reporting requirements and external audit.

The second corporation, called the Alaska Enterprise Investment Corporation (AEIC), is essentially a development bank. It receives one-sixth of the revenue dedicated to the permanent fund up to \$100 million. When that amount has been paid into the AEIC that one sixth reverts to the Alaska Permanent Fund Corporation.

The Alaska Enterprise Investment Corporation is an independent, non-taxable public corporation managed by a seven member policy board. One member of the policy board is appointed by the governor from the executive branch. The other six are appointed by the governor and confirmed by the legislature from the general public. The public members are unsalaried, part-time and serve four-year terms.

The policy board members are empowered to appoint an executive director and members of the investment committee, set policy for the AEIC within statutory constraints and monitor the corporation's plans and performance.

The executive director is empowered to hire and fire staff and serve as a member of the investment committee. He is responsible to the policy board for the corporation's performance.

The other four members of the investment committee also are appointed by the policy board. They are full-time, salaried and serve four-year terms. The investment committee is solely responsible for approving all investment proposals.

The corporation is designed to provide financial assistance to financially sound small and medium scale productive private enterprises and community development projects. In doing so it may borrow up to \$100 million, provide financial guarantees and loans, and purchase up to a 25 per cent ownership in an enterprise or project. Up to 50 per cent of its financial resources may be used to finance private enterprises; the other 50 per cent may be used for community development projects.

All corporation investments must be made according to market rates and terms. The corporation may not give financial assistance of more than \$2.5 million to any enterprise or project without legislative approval. The corporation may not use its money to replace private capital.

The corporation is subject to public reporting requirements and external audit.

Thus the House committee's proposal sets aside most of the permanent fund as a trust to preserve its principal and produce earnings from secure investments. The balance of permanent fund revenues, up to \$100 million, are designated for a development bank designed to fund and fill capital gaps in Alaska on an income-producing basis. Both corporations are insulated from politics in their day-to-day operations but subject to policy decisions made by the public through the political process.

The committee's proposal, in short, is designed to provide both financial security and reasonable financial assistance to current and future Alaskans.

The other factor affecting the amount of money available for the permanent fund is the level of state spending. Money spent on state government projects and programs cannot go into the permanent fund.

This has led some to suggest that 100 per cent of the specified revenues be put into the permanent fund so that none of the specified revenues can be used to finance state government. But such an approach, revenue/expenditure projections show, would soon leave insufficient revenue to finance state government even if there was no real growth (that is, more dollars spent per person after inflation effects are subtracted) in the state budget. (See chart 1)

Such a situation, called deficit spending, is prohibited by the state constitution.

Projections, it is important to remember, carry no guarantee. Changes may occur (tariffs may be lowered once again, new sources of revenue may be found) that the projections do not take into account. They are planning tools and are not intended as outright projections of the future.

The committee took these projections into account as it worked on its proposed permanent fund enabling legislation.

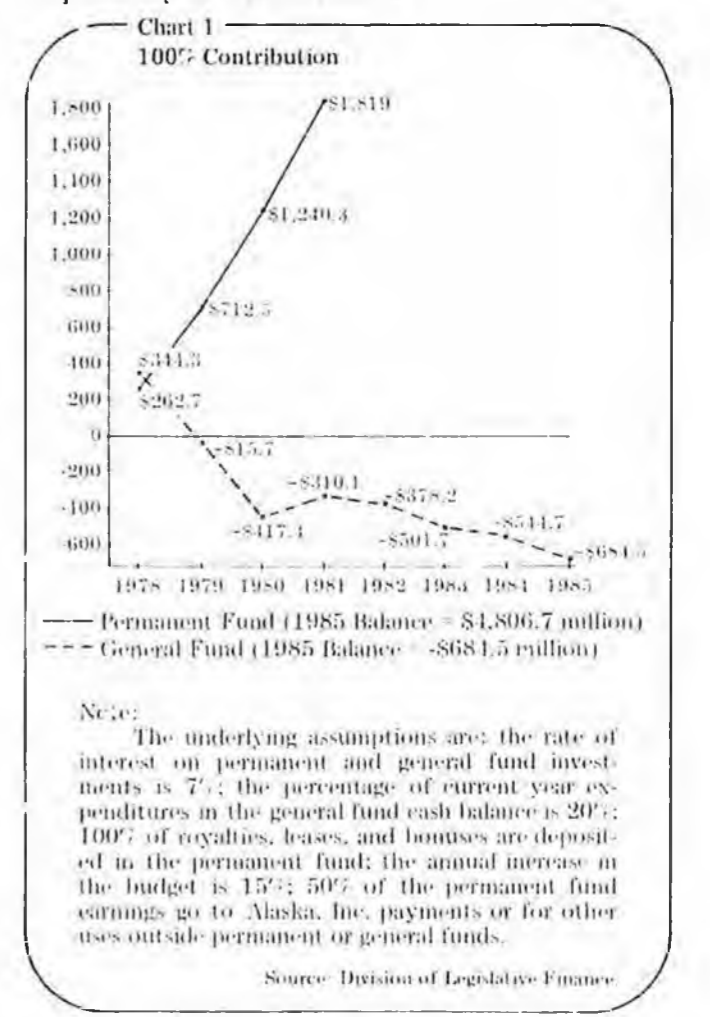
It is important to note that, in addition to whatever money is put into the permanent fund, there are previous constraints on state revenue. These include a 5 per cent dedication to the Renewable Resources Development Fund, payments to the Alaska Native Fund and fixed assets in various state loan funds.

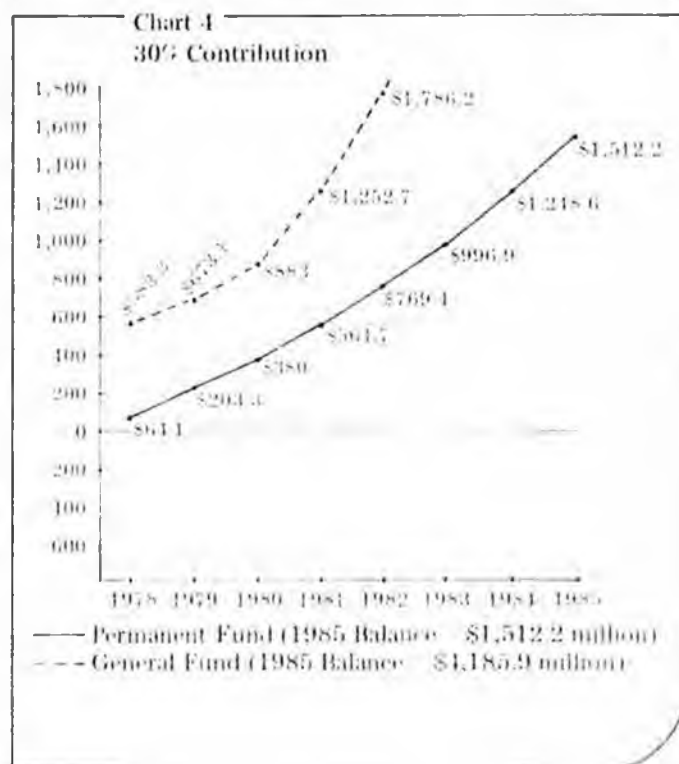
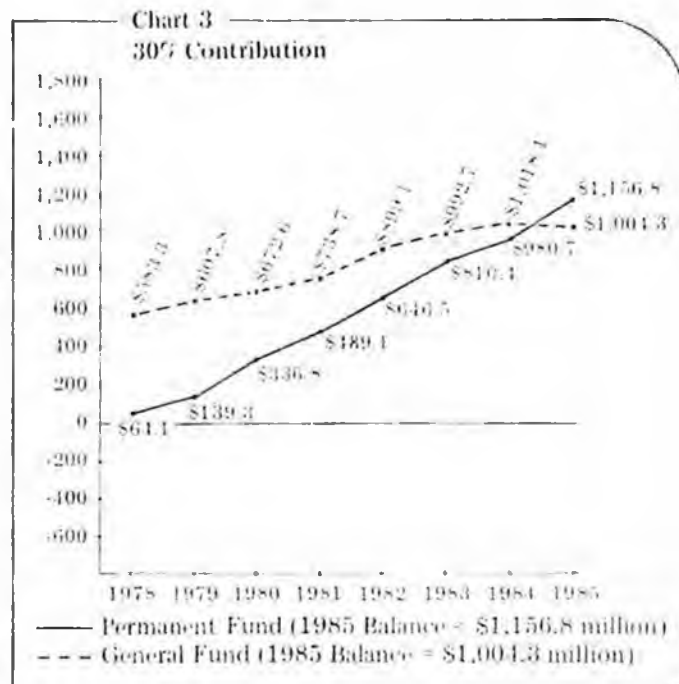
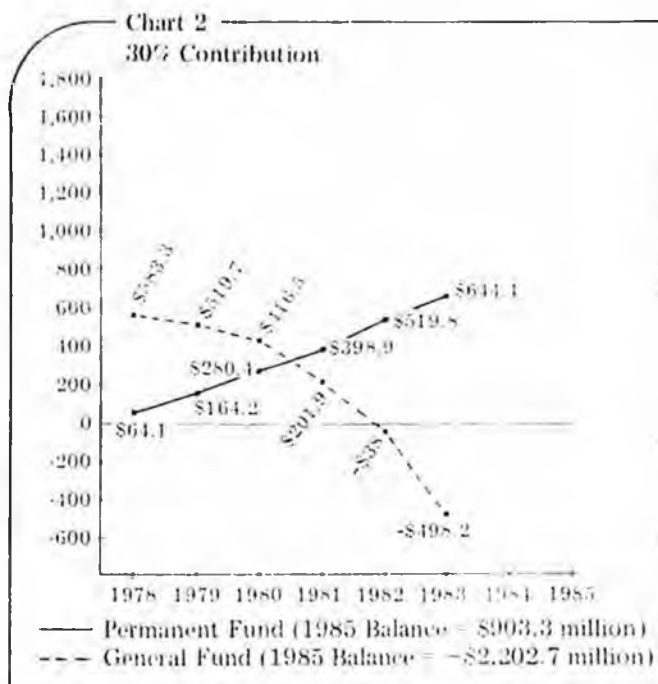
The committee's proposal puts 30 per cent of the specified revenues, with the exception of bonuses, into the permanent fund. The latest revenue/expenditure projections show that this would put the permanent fund's value by 1985 between a low of \$903.3 million and a high of \$1.5 billion. These figures do not include any earnings from the permanent fund that might be returned to the permanent fund. (See charts 2, 3 and 4)

The committee's proposal puts 100 per cent of bonuses (minus 5 per cent for the Renewable Resources Development Fund and 2 per cent, until it is paid off, for the Alaska Native Fund) into the

permanent fund. The committee decided that no bonus money should go into the general fund because such a policy could lead to the premature sale of leases simply to balance the state budget.

The committee is continuing to study its formula budgeting concept, although it is not contained in the committee's proposal. Generally, this concept requires the establishment of a formula, based on the previous year's budget, for setting budget growth. Once the revenue required by the formula was provided, all other revenue would flow to the permanent fund. The formula, of course, could not allow the permanent fund contribution rate to fall below the 25 per cent required by the amendment.





Note:
In all cases permanent fund earnings are assumed to return to the general fund. Other underlying assumptions are:

In Chart 2, wellhead values increase 2.5% annually; expenditures increase 15% annually; tariffs are about \$6.25 per barrel; the State loses the dispute over deduction of treatment costs for royalty calculations; the state severance tax "floor" remains at 80¢ per barrel (equivalent to a wellhead value of about \$6.53 per barrel).

In Chart 3, the State is successful in its suit to halt deduction of field treatment costs for royalty calculations and that the tariff dispute is resolved by "splitting the difference" between the interim tariff of \$1.90 per barrel and the company tariff of \$6.25 per barrel. With those additions to wellhead value, 1979 and subsequent years' oil prices increase 3.75% annually; the state severance tax "floor" remains at 80¢ per barrel; and state expenditures increase 10% annually.

In Chart 4, the State prevails in both the treatment cost and tariff dispute, adding about \$1.97 per barrel over current value; oil prices rise 5% annually; expenditures increase 7.5% annually; the severance tax "floor" remains at 80¢ per barrel.

Source: Division of Legislative Research

VI What should be the financial goals of the fund?

The financial goals, generally, are dictated by the constitutional amendment. On questions where the amendment is mute, the committee looked to expressed public opinion and professional advice for its answers. Based on this, the committee made three basic decisions on the fund's financial goals and embodied them in its proposal.

First, the main goal of the permanent fund is permanence; that is, the fund's primary purpose is to preserve the money put into it. This dictates that investment risk be minimized, that permanent fund investments be as secure as possible.

Second, fund investments must produce income. This rules out investments in projects and programs that will not return income directly to

the fund. Without dictating a specific level of return, the committee decided that permanent fund investments must meet market rates and terms to insure, insofar as possible, their security and ability to produce income.

Third, a portion of the permanent fund should be used for the benefit of current Alaskans, as long as that use is secure and income producing.

In making these decisions the committee realized that it was ruling out many types of investments, including highly speculative and subsidized investments. It also realized, however, that the permanent fund is only one of several financing vehicles available to the state and that it was unnecessary, as well as unwise, to try to design a permanent fund to do all things.

VII How should the fund be managed?

Based on its decision on the fund's financial goals the committee, with the assistance of its consultants and advisors, created two corporations.

The first, called the Alaska Permanent Fund Corporation (APFC), is essentially a trust fund. It receives five-sixths of the permanent fund revenue until the second corporation is paid its \$100 million; then it receives all the permanent fund revenue.

The Alaska Permanent Fund Corporation is an independent, non-taxable public corporation managed by a three-member board of trustees.

The APFC board's members are appointed by the governor and confirmed by the legislature for four-year terms. They receive no salary and serve on a part-time basis. The trustees are empowered to manage and invest the corporation's assets within the constraints of the committee's proposal.

ERRATA SHEET

1. Page 7, line 26 following the word "obligation" add:
"which may be invested without limitation as to yield".
2. Page 8, line 11 following the words "per cent" add:
"of the principal amount".
3. Page 8, line 13 following the words "per cent" add:
"of the principal amount".
4. Page 8, line 16 following the words "per cent" add:
"of the remaining principal balance".
5. Page 8, line 18 following the words "per cent" add:
"of the remaining principal balance".
6. Page 9, line 23 following the words "per cent" add:
"of the remaining principal balance".
7. Page 10, line 24 following the word "instrumentality"
add: "loans".
8. Page 20, line 10 delete the word "section" and substitute
"paragraph".
9. Page 20, line 18 and 19 delete all material and substitute
"(5) The bonds shall be prepared by the municipalities
attorney, approved by the attorney general and need not
be in definitive form".

10. Page 20, line 21 and 22 following the word "years" add:
"average life" and delete "on an even annual debt
service basis".
11. Page 24, line 15 delete the word "may" and substitute
"shall".
12. Page 28, line 9 following the word "older." add:
"Except for loans made under sec. 330 of the chapter".
13. Page 37, line 1 delete "Sec. 44.96.470" and insert
"Sec. 45.96.470"
14. Page 37, line 18 delete "Sec. 44.96.480" and insert
"Sec. 45.96.480".
15. Page 38, line 1 delete "Sec. 44.96.490" and insert
"Sec. 45.96.490".

2nd ERRATA SHEET - SB 429

Page 59, line 29 following "1977." Add "For the fiscal year ending June 30, 1978 the amount transferred is the amount remaining in the general fund at the end of the fiscal year."

3rd ERRATA SHEET - SB 429

1. Page 7, line 11 and 12 delete "This sub-account consists of the lesser of" and substitute "Each year the amount equal to the greater of"
2. Page 7, line 17 following the word "year" add: "shall be placed into the sub-account."
3. Page 7, line 17 delete the word "not".
4. Page 59, line 27 add: 45.86.010 - 45.86.060 (Water Resources Revolving Loan Fund)

A NARRATIVE ON SENATE BILL 429

by

The Senate Special Committee on the Permanent Fund

Dear Alaskan:

The following report explains the Senate proposed legislation regarding utilization and management of the Permanent Fund and the Renewable Resources Development Fund. Some key points of the Senate legislation are:

REDUCE BUREAUCRACY

PROVIDE GREATER CONTROL

MAXIMIZE BENEFITS TO ALASKANS

OPTIMAL PROGRAM ACCOUNTABILITY

LOWER HOUSING COSTS

CONTRIBUTE TO LOWER COST OF LIVING

FINANCIAL DEVELOPMENT FOR
RENEWABLE RESOURCES

SECURE PERMANENT FUND MONIES
WITH HIGH GRADE INVESTMENT

Please feel free to submit any comments you may have regarding the Senate proposal to:

Senator George Hohman, Chairman
Senate Special Committee on the Permanent Fund
Pouch V
Juneau, Alaska 99811

Sincerely,



Senator George Hohman, Chairman
Senate Special Committee on the
Permanent Fund

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INTRODUCTION

In November of 1976, Alaskan voters approved a constitutional amendment which provides that at least 25% of certain non-renewable resource revenues be placed in a permanent fund. The amendment requires that the money be used for income-producing investments designated eligible by the legislature. Unless the legislature otherwise stipulates, earnings from the permanent fund will go to the state's general fund.

Because of the impact of the permanent fund on Alaskans, various opinion polls have been conducted to assess public sentiment about state needs and priorities, with emphasis placed on the structure, management and use of the permanent fund (Dittman for the Senate Committee on the Permanent Fund, Dec., 1977; Rowan Group Report for the Office of the Governor, July, 1977; and the Alaska Public Forum Report, March, 1977).

In addition to using data generated by public hearings and public opinion polls, the Senate Committee on the Permanent Fund sent questionnaires to individuals in rural Alaska and the Alaska State Chamber of Commerce members for their input regarding permanent fund usage. From the responses received from both the questionnaires and the poll tabulations, various priorities surfaced. Many individuals feel there is a shortage of capital available for lending to business venture and for purchase and construction of housing. Development of renewable resources (including agriculture, timber, and fishing) is a high priority. Community development also received support. At the same time, the respondents strongly urged that the permanent fund principal be invested in hi-grade guaranteed securities, thus maintaining the integrity of the fund for future generations.

The Senate Committee on the Permanent Fund, chaired by Senator George Hohman, has submitted legislation designed to address the expressed concerns of Alaskan citizens. The committee's legislation proposes to invest 100% of the permanent fund principal in hi-grade securities and use the earnings as a guarantee for issuing revenue bonds. The proceeds of the bonds will be used to fund the Alaska Loan Programs Fund, which would expand, consolidate and administer the activities of existing state loan programs. The legislation also develops a plan for usage of the Renewable Resources Development Fund. The following report will address the Alaska Loan Programs Fund, the investment and management of the permanent fund, and the Renewable Resources Development Fund. There is also a section dealing with the Senate proposed Reserve for Capital Outlay Account which would be used to finance non-recurring expenditures.

MANAGEMENT OF THE PERMANENT FUND

Lombard-Wall, Inc., a New York management consultant firm, was assigned the task of making recommendations concerning the management of investment assets of the permanent fund. Lombard-Wall's senior Vice President, Mr. Fred Branditz, came to Alaska specifically to review the structure, management and personnel of Treasury in order to evaluate the role that group might play in managing the permanent fund principal. In a report presented to the Senate Committee on the Permanent Fund, Lombard-Wall recommended the permanent fund be managed and invested by the Division of Treasury for the following reasons:

- 1) The expertise already exists within the infrastructure for most, if not all, the activities currently contemplated for the permanent fund. The Treasury Division administers \$1/2 billion of fixed income securities for the general fund and an additional \$1/2 billion for 7 segregated funds.

- 2) Employing an entirely new staff to manage the permanent fund would present many difficulties and risks.
- 3) The combined resources of the permanent fund, the general fund and the pension funds will create a pool of assets sufficient to employ specialized, sophisticated investment techniques to a degree none could afford individually. Thus all areas will benefit from combined management.
- 4) The revenues accruing to the permanent fund derive from taxes and belong to all of the citizens of Alaska. Therefore, no conflict of interest can result from their management by an existing state agency.
- 5) Accounting techniques currently exist for allocating cost among the various funds.

The Lombard-Wall report also includes an analysis of the capabilities of the Division of Treasury. The report concluded that there is efficiency in management of funds currently assigned to Treasury and that the staff, in particular, appears capable of assuming greater responsibility. Braditz also recommends that the Treasury be reorganized to include delegation of line and staff duties, creation of several new positions, and improvement of certain support functions in order to maximize earnings from the larger pool of assets anticipated.

In addition to the study undertaken by Lombard-Wall, letters received from the Treasury Divisions in other states indicate that placement of all state funds in the State Treasury is sound public policy.

In accordance with the above recommendations, the Senate Committee on the Permanent Fund has proposed a reorganization of Treasury to assure a program of sound investment policy, continuity and accountability to the legislative branch of government. A Division of Treasury would be created by statute, headed by a director subject to the merit system. The

director would be solely accountable for investment policy and management of the general fund, the permanent fund, and all other state funds. Additionally, he would be responsible for the organization and staffing of the Treasury Division.

The proposed legislation specifies those areas authorized for permanent fund investment. Primarily, it limits investment in corporate obligations to those with an 'A' or better rating, and allows only those securities which are federally insured. It may also be invested in bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska Law.

In order to keep the Executive and Legislative branches informed, the Legislative Budget and Audit Committee would provide a quarterly report regarding the investment activity of the Division of Treasury to the legislature. The legislature may exercise its law-making power to statutorily change the authorized investments allowable in Treasury should the Budget and Audit report reveal a need for such revision. Additionally, investment policy shall be proposed to the legislature during the first ten days of any regular session and only becomes effective 60 days after presentation unless disapproved by a resolution concurred in by a majority of the members of each house.

Upon recommendation of the Commissioner of Revenue, the Governor may disallow an investment strategy or policy of the Division. Budget and Audit must also receive notification and rationale for such actions and present them to the legislature.

RATIONALE FOR ESTABLISHMENT OF THE ALASKA LOAN PROGRAM

Since statehood, the Alaskan legislature has created ten loan programs and six independent corporations to meet the capital needs of various groups or to enhance development of certain industries within the State.

Generally, these target groups were unable to obtain adequate financing (either loan dollar amounts, interest rates, or loans of sufficient duration) from private financial institutions within or outside Alaska. The loan programs were not created to compete with private lenders, in fact, bank participation is a requirement of one loan program. Rather, as a matter of public policy the loan programs were conceived to provide funds for Alaskan ventures at terms banks could not (i.e. long term money) or would not (i.e. higher levels of risk) capitalize. Most of the loan programs are administered by the Department of Commerce and Economic Development, exceptions being the Agricultural Revolving Loan Fund (Dept. of Natural Resources); the Scholarship Revolving Loan Fund (Dept. of Education); and the Senior Citizens Housing Loan Fund (Dept. of Community and Regional Affairs). The independent corporations - Alaska Housing Finance Corporation, the Alaska Power Authority, the Alaska Development Corporation, the Small Business Development Corporation, the Municipal Bond Bank, and the Industrial Development Authority are not within the direct purview of any state agency.

The history of the loan programs and independent corporations is somewhat dismal. Once created, these programs often fail to (1) remain operational; (2) comply with legislative intent; (3) operate in an efficient manner; (4) be known to the general population; and (5) come under legislative scrutiny in a timely and regular manner. In addition, there is little standardization among the programs with regard to eligibility criteria, interest rates and terms, and maximum loan amounts.

Two of the independent corporations, the Alaska Development Corporation and the Small Business Development Corporation, are no longer engaged in lending activity. The Alaska Power Authority, created in 1976 is still in the organizational phase, and the Industrial

Development Authority, created in 1967, has become operational only as a result of amendments passed during the 1977 session expanding its authorized areas of activity.

Failure to comply with legislative intent is illustrated by the Alaska Housing Finance Corporation, established in 1971 to meet the mortgage needs of low and moderate income Alaskans in blighted or remote areas of the state where normal bank financing for home purchases is difficult to obtain. AHFC issues its own bonds for lending capital; there is a yearly legislative appropriation for the necessary reserve requirements that such an issue entails. However, AHFC does not come under the Executive Budget Act, and its operations come under legislative scrutiny only when performance audits are done by the Legislative Budget and Audit Committee at three year intervals (AS 24.20.271(2)). An investigation by the Office of Ombudsman conducted in July, 1977, while not a formal audit, brought to light the facts that AHFC has promulgated no administrative procedures and had made loan policy changes without benefit of required public hearings beforehand. These facts were also noted in an audit performed by the Division of Legislative Audit, dated November 11, 1977, and released in February, 1978. The Ombudsman also stated that information concerning the policy changes had been selectively distributed to the state's financial institutions.

AHFC's current lending activity is distributed on a ratio of 90% urban, 10% rural counter to the corporation's statutory mandate that loan activity shall be concentrated in "remote, underdeveloped or blighted areas" (AS 18.56.010). Although, AHFC has developed a loan program for rural home improvements or building material loans, according to the November 15 audit (Division of Legislative Audit) the program has received no publicity.

Taken as a whole, internal operation of the various loan programs can be neither damned nor praised. There are instances of good management, very poor management, and the entire spectrum in between. Delinquency rates in the loan programs vary from 33% (Agricultural Revolving Loan Fund) to 2% (Veteran's Revolving Loan Fund). Characteristic of all loan programs is that loan granting, record keeping and collection functions occur within the same division. While an inherently sound practice for private financial institutions, whose goal is maximization of profit, within the bureaucracy of state government inattention to accounting and collection aspects have worked against the best interest of the state, both in loss of return on investment and diminished public confidence in the program. Recommendations issued by the Legislative Budget and Audit Committee after performance audits are almost exclusively in the areas of record keeping (accounting) and collection.

Currently, administrative costs for the state loan programs are in excess of \$2 million per year; both the Legislative Budget and Audit Committee and the Director of Business Loans have indicated that economies of scale, efficiencies of operation, and more equal opportunity for loan applicants would probably result were the state loan programs to be consolidated and/or streamlined in some manner.

The legislation proposed by the Senate Committee on the Permanent Fund would dissolve all the existing loan programs and independent corporations now in operation. In their place would be created the Alaska Loan Programs Fund, which would lend in all areas now served by these entities.

The lending arm of the Alaska Loan Programs Fund will be a division

in the Department of Commerce and Economic Development, with field offices initially established in Anchorage, Fairbanks and Juneau; others will be opened as volume dictates. These offices will provide, in addition to information about the Alaska Loan Program, information concerning state and federal grant programs, and federal and private sources of loans.

Provisions are made in the legislation for individuals and corporations to engage in borrowing through the Alaska Loan Program in cooperation or participation with the private financial institution of their choice.

The scope of activity includes; 1) educational loans of \$4,000 for undergraduates, and \$8,000 for graduate students; 2) commercial loans with a maximum of \$500,000 per individual and \$5 million maximum for no more than 10 individuals in a project, or a corporation where no more than 10 individuals ownir^g stock assume a personal liability; 3) residential loans ranging from \$90,000 for a single residence to \$210,000 for a 4-plex; and 4) public purpose loans where the Alaska Loan Program will submit a bid for all GO and revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city under the laws of the state, loans to municipalities of less than 5,000 population through purchase of municipal bonds, industrial development projects conducting exempt activities under federal law, and revenue bonds issued on behalf of a non-profit corporation with approval of the municipality.

The interest rate charged for loans will be standardized, and depending on the cost of the revenue bonds issued, should be in the 7% range. In the event that a reduction in the basic interest rate is deemed desirable, as for veteran's or educational loans, the difference in interest rates charged to the borrower and that paid to the Alaska Loan Programs Fund would be paid on a yearly basis from the general fund.

The Senate legislation also addresses incentives for renewable resource loans. In 1974, the legislature passed a bill creating the Alaska Renewable Resources Development Fund. Not less than 5% of the receipts from revenues derived from certain renewable resources will be deposited in this fund. The proceeds of this fund are to be utilized to enhance and develop renewable resource programs.

The proposed legislation creates the Division of Renewable Resource Development, also within the Department of Commerce and Economic Development. This division will work hand in hand with the Alaska Loan Program by performing feasibility studies on renewable resource project loans and participating in one or more of three ways: 1) interest incentives; 2) equity participation; and 3) loan guarantees. They may also make grants for eligible projects with legislative approval.

Eligibility criteria will also be standardized, the main requirements for individuals being Alaska residency of five years duration and 18 years of age or older. For loans to corporate entities, more than 60% of its co-owner-shareholders must be Alaska residents for five years or more at the time of application, and the officers of the corporation must assume individual liability for the loan's repayment.

Length of experience will determine the maximum commercial loan amounts once basic eligibility criteria have been met. Percentages of the maximum amount available for borrowing will be reduced if the applicant has less than 5 years experience in the area of loan application.

Maximum loan amounts have, in most cases, been increased to more realistically reflect current costs of living, building, or doing business in the state. Additionally, a cost differential formula has been added to the maximum loan amounts to reflect higher costs incurred in rural areas.

Collateral requirements for commercial and real estate loans will be no less than 90% of the real property held as security, and no less than 80% of equipment held as security.

Should a loan become delinquent in excess of 30 days, a loan evaluation committee shall review the loan and consider reevaluation of its terms and conditions, provided the loan can be restructured in such a way as to protect the interests of the state.

Accounting for the Alaska Loan Programs Fund will be performed by the Dept. of Administration. Reports will be made by the Depts. of Commerce and Revenue to the Legislative Budget and Audit Committee on a monthly basis itemizing loans which are in excess of 30 days delinquent, and outlining the measures taken to insure compliance with conditions and terms of the loan.

Within the Dept. of Revenue, a division will be created to assume the collection function for all loans made by the Fund. Reports of collection efforts will be made to the Budget and Audit Committee.

The Budget and Audit Committee will do a quarterly review of the performance and status of the lending, accounting and collection procedures of the three agencies involved and will present their findings and recommendations to the legislature for review and action.

FUNDING OF THE ALASKA LOAN PROGRAMS FUND

Primary funding for the Alaska Loan Program will come from proceeds of revenue bonds. Revenue bonds are tax-exempt under Federal law, resulting in lower interest costs to the borrower. Loans from the Alaska Loan Program are limited to \$5,000,000 for any one project in a specific locality. There would, however, be no limit on the amount lendable for public purpose loans - those to local government units, public utilities, hospitals, etc. Due to the Federal restrictions, any violation of these

limits could result in the loss of the tax-exempt status of the bonds.

Because of the low bond interest to the Loan Program, loans can be made to Alaskans at an interest below market rate; the cost of money to the Loan Program plus a 1% service fee for administrative costs of loan processing. Additionally, this type of funding would place no budgetary limits on the amount of money available for lending in any of the loan categories. As the earnings of the permanent fund increase, additional bonds can be issued to meet the borrowing needs of Alaskans. Repayment of the bonds would come strictly from repayment of borrowers of the Alaska Loan Program. Following is a brief description of the Alaska Loan Programs Fund and organization of the reserve accounts to be established.

- 1) Alaska Loan Programs Fund - All bond proceeds except those designated in 2) of this section to be placed in this fund.
- 2) Debt Reserve Account - For the purpose of securing each issue of its obligations, the Alaska Loan Programs Fund will pay into this account the maximum amount permissible under Federal law and regulations for tax-exempt obligations. All money in this account may be used when required, when money is not available from the principal and interest account or the capital reserve account solely for the payment of the principal of obligations, the purchase or redemption of obligations, the payment of interest on obligations, or the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any interest or income from this account and any amount remaining in the debt service reserve account when the issue secured by the account is fully retired shall be paid to the unallocated reserve account.
- 3) Unallocated Reserve Account - All earnings from the permanent fund will be placed in this account. The amounts necessary to fund the capital reserve account, the insurance reserve account, and the loss reserve account

will be furnished from this account. At such time as may be necessary, amounts in the unallocated reserve account will be transferred to the general fund.

4) Capital Reserve Account - the Commissioner of Revenue shall place an amount equal to 5% of all obligations issued and sold into this account. At the end of each fiscal year, the Commissioner will withdraw or add to the account that amount necessary to maintain the 5% of the obligations secured. Excess funds will be returned to the unallocated reserve account. All money in this account may be used as required for the payment of bond obligation principal, the purchase or redemption of obligations, the payment of interest on obligations, or the payment of any redemption premium required should obligations be redeemed before maturity.

5) Loss Reserve Account - A special account is established for the purpose of protecting the financial integrity of the fund. The Commissioner of Revenue shall pay into this account an amount equal to 5% of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of each succeeding fiscal year and thereafter, an amount necessary to bring the balance of the account up to 5% of the total amount of loans to be outstanding during the fiscal year shall be paid into the account. The 1% loan service fee will also be placed in this account and used to reimburse the unallocated reserve account.

6) Fire Insurance and Liability Reserve Account - The Alaska Loan Program may issue loans without requiring proof of insurance if an additional amount of .6% is made by the borrower. The account shall only be used for reimbursement to the Loan Programs Fund for losses of property having the insurance coverage.

RESERVE FOR CAPITAL OUTLAY ACCOUNT

The Senate proposal provides that 30% of the oil and gas receipts will be set aside in a reserve for capital outlay account within the general fund. Monies from this account will be used to finance non-recurring expenditures. Deducting the 25% for permanent fund, 5% renewable resources development fund, and 30% for the capital outlay account, the Governor will be required to prepare a balanced budget against the remaining 40% of current receipts (less until the Native Land Claims are paid off). The Governor will also be required to perform long-range capital programming and financial planning in conjunction with this program. A current inventory of all state facilities, including a projection of the serviceability of the facilities and projections of replacements and additions to facilities needed to provide the level of services programmed by the various user agencies, is also required in the Senate proposal.

Existing State Loan Programs and Independent Corporations

Lending Agency	Eligibility	Interest	Terms	Amount
Agricultural Loan Fund	AK resident farmer, homesteader or partner of same	6.0%	1 yr	\$ 25,000
Short Term		6.0%	30 yr	200,000
Farm Development	2 - 3 years experience	6.0%	7 yr	100,000
Chattel		4.0%	10 yr	no max
Irrigation				
AK State Development Corp (presently inactive)		legal rt	20 yr	750,000
Child Care Loan Fund	Certificate of need (CRA) required	6.0%	10 yr	10,000
Commercial Fishing Loan	5 yr AK resident; 3 yr license	7.0%	15 yr	150,000
Fisheries Enhancement	For non-profit hatchery permit holder	8.0%	25 yr	300,000
	For non-profit corporation	8.0%	25 yr	3,000,000
Small Business Dev. Corp.	Through Local Development Corp with/SBA	7.0%	25 yr	
Small Business Loan Fund	AK resident; less than 50 employees	8.0%	5-15 yr	300,000
Student Financial Aid	AK resident; full time	5.0%	6-10 yr	5,000
	graduate	5.0%	6-10 yr	2,500
	undergraduate			
Tourism Loan Fund	Requires bank participation for loans exceeding \$150,000	8.0%	20 yr	5,000,000
Veterans Loan Fund	AK Veteran; Veteran residing 5 years in state; 6 yr Nat'l Guard	7.5%	20-30 yr	10,000
Personal		7.5%	same	125,000
Business		7.5%	same	83,250
Vet occupied duplex		7.5%	same	68,250
Single family		7.5%	same	110,000
Multiple dwelling				
Water Resources Loan Fund	Public utilities	5.0%	7 yr	
Senior Citizens Dev. Fund	Municipalities and corporations		None Specified	
AK Housing Finance Corp.				
Conventional				
Single family	Owner occupants; home improvement loans only in rural Alaska	7.75%	30 yr	65,000
Duplex		7.75%	same	90,000
FHA/VA Insured				
Single family		7.50%	same	65,000
Duplex		7.50%	same	90,000
Home Improvement		9.50%	15 yr	15,000
Historical Loan Fund	Person, firm, or municipality	6.5%		100,000
AK Industrial Dev. Authority	Industrial development projects with approval of local governmental unit		Through Bond Issue	
Municipal Bond Bank	Municipalities		Through Bond Issue	
AK Power Authority	Not yet operational			

SENATE PROPOSED ALASKA LOAN PROGRAM

STANDARD ELIGIBILITY: Five year Alaskan resident
Eighteen years of age or older

STANDARD INTEREST: No more than 1% plus the cost of borrowing to the ALP

INTEREST INCENTIVES: Agricultural loans - standard interest less 1%
Veterans loans - standard interest less 1% (less additional 1/2% for twice qualifying veterans)
Renewable Resources loans - interest incentive to be determined by the Renewable Resources Development Division

TERMS: 30 yr. on loan secured by real property
15 yr. on life of equipment on loans secured by equipment
7 yr. or life of chattel on loans secured by chattel
1 yr. on a loan for working capital

<u>Category</u>	<u>Description</u>
Educational	<ol style="list-style-type: none"> 1) Individual enrolled in full-time college, work study, or vocational program 2) \$4,000 per year for under-graduate; \$8,000 for graduate 3) \$16,000 maximum outstanding allowable
Residential	<ol style="list-style-type: none"> 1) \$ 90,000 for single dwelling 130,000 for duplex 170,000 for tri-plex 210,000 for four-plex 2) Collateral requirements: 90% appraised value of real property 95% in areas lacking FHA mortgages
Commercial	<ol style="list-style-type: none"> 1) \$500,000 maximum per individual \$5 million for group of no more than 10 individuals in project or corporation where 10 individuals owning stock assume liability 2) Collateral requirements: 80% appraised value of equipment 90% appraised value of real property
Public Purpose	<ol style="list-style-type: none"> 1) ALP will submit bid for all G.O. and revenue bonds offered on a competitive basis by home rule or general law borough or city 2) Loans to municipalities with population under 5,000 through purchase of municipal bonds 3) Industrial development projects conducting exempt activities under federal law 4) Issue of revenue bonds on behalf of a non-profit corporation with the approval of the municipality in which it is located

ALASKA LOAN PROGRAM

ELIGIBILITY: 5 yr. Alaska resident, minimum 18 yrs. of age

INTEREST: Cost of borrowing to ALP plus 1% service fee

TERMS: 30 yr. on loan secured by real property
 15 yr. on life of equipment on loans secured by equipment
 7 yr. or life of chattel on loans secured by chattel
 1 yr. on a loan for working capital

COLLATERAL: 80% appraised value of equipment
 90% appraised value of real property
 95% for residential where FHA mortgage not available

EDUCATIONAL

RESIDENTIAL

PUBLIC PURPOSE

COMMERCIAL

\$4,000 per yr/undergraduate 8,000 per yr/graduate 16,000 maximum outstanding	\$ 90,000 single dwelling 130,000 duplex 170,000 triplex 210,000 fourplex	Eligible Entities Boroughs and cities Municipalities Industrial development projects Non-profit corporations	\$500,000 max per individual \$5 million max per group or corporation assuming individual liability
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ORGANIZATIONAL CHARTS

The following Organizational Charts A through D have been prepared by the Senate Special Committee on the Permanent Fund.

Organizational Chart A

Per existing state agencies

Organizational Chart B

Per House Bill 298, the Governor's Bill

Organizational Chart C

Per House Bills 596 and 682, by the House Special Committee on the Permanent Fund

Organizational Chart D

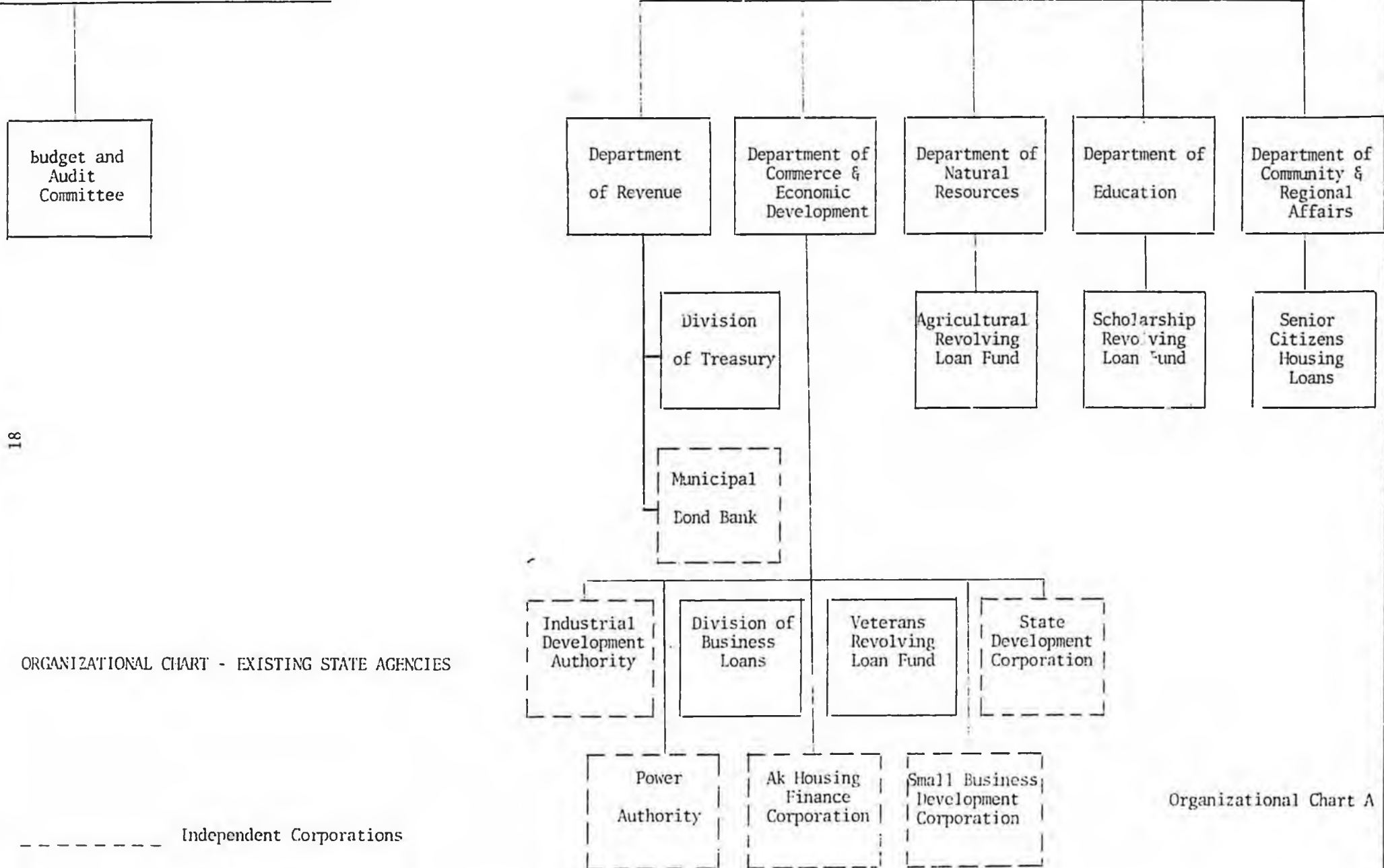
Per Senate Bill 429, by the Senate Special Committee on the Permanent Fund

Organizational Chart E

Organizational and flow chart of the permanent fund, renewable resources development fund and the general fund

LEGISLATIVE BRANCH

EXECUTIVE BRANCH



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ORGANIZATIONAL CHART - EXISTING STATE AGENCIES

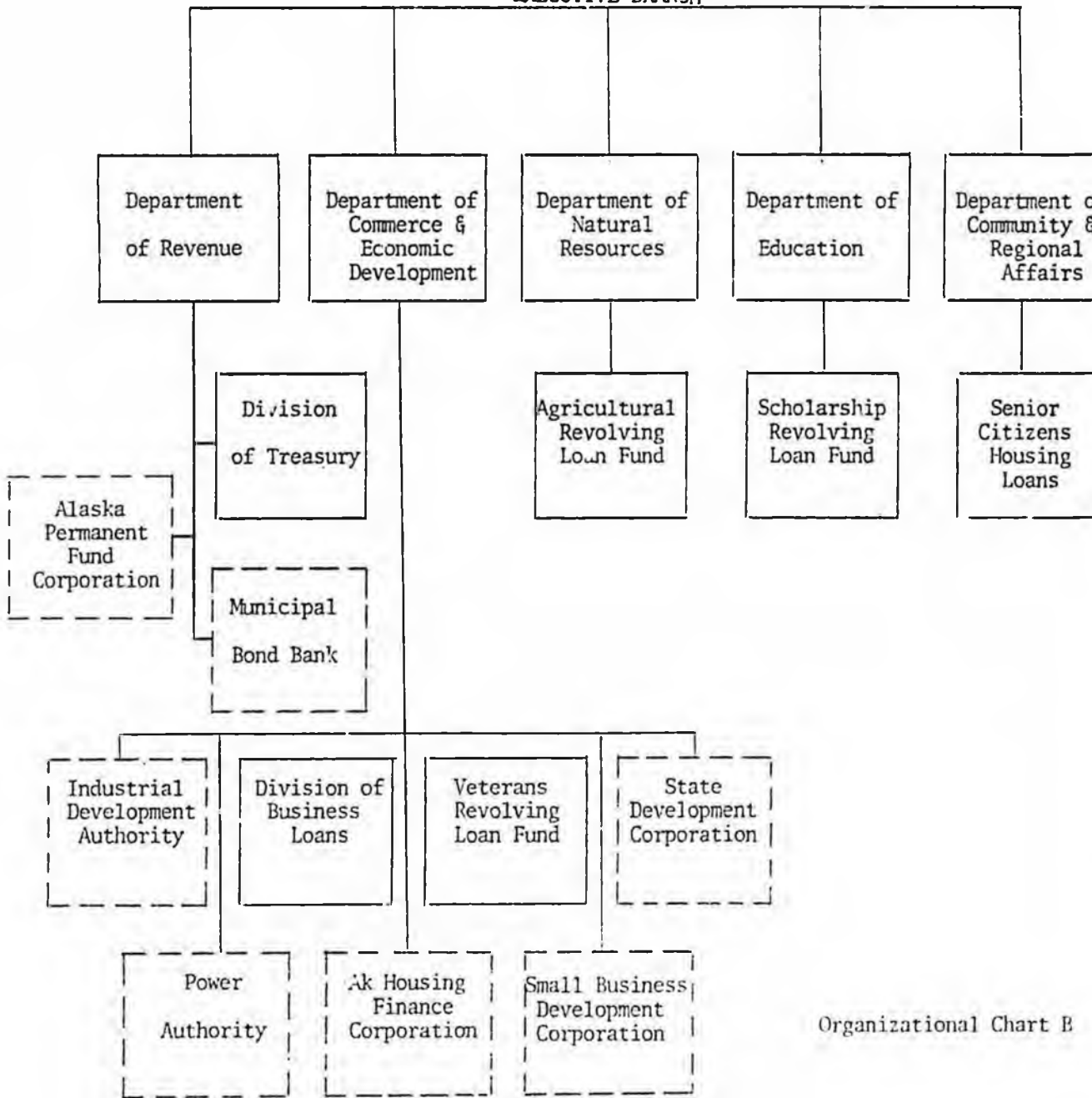
----- Independent Corporations

Organizational Chart A

LEGISLATIVE BRANCH

Budget and
Audit
Committee

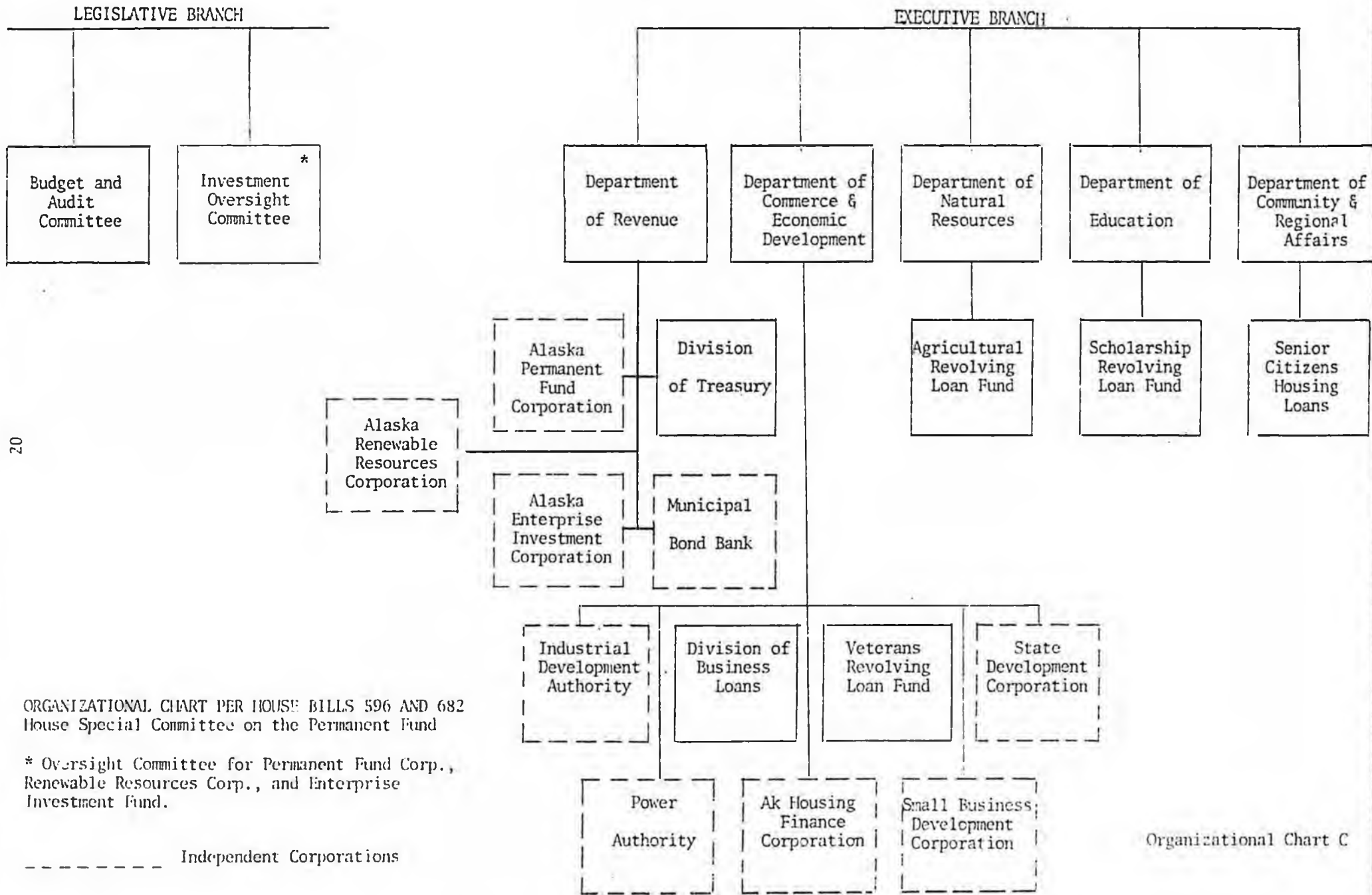
EXECUTIVE BRANCH



ORGANIZATIONAL CHART PER HB 298
Governor's Bill

----- Independent Corporations

Organizational Chart B



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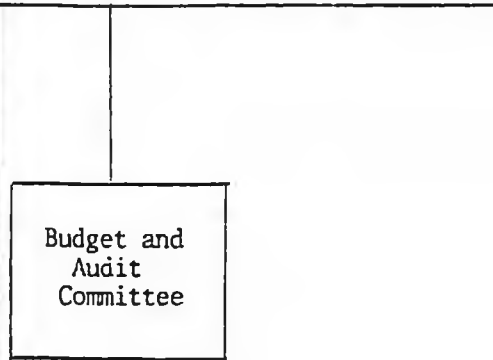
ORGANIZATIONAL CHART PER HOUSE BILLS 596 AND 682
House Special Committee on the Permanent Fund

* Oversight Committee for Permanent Fund Corp.,
Renewable Resources Corp., and Enterprise
Investment Fund.

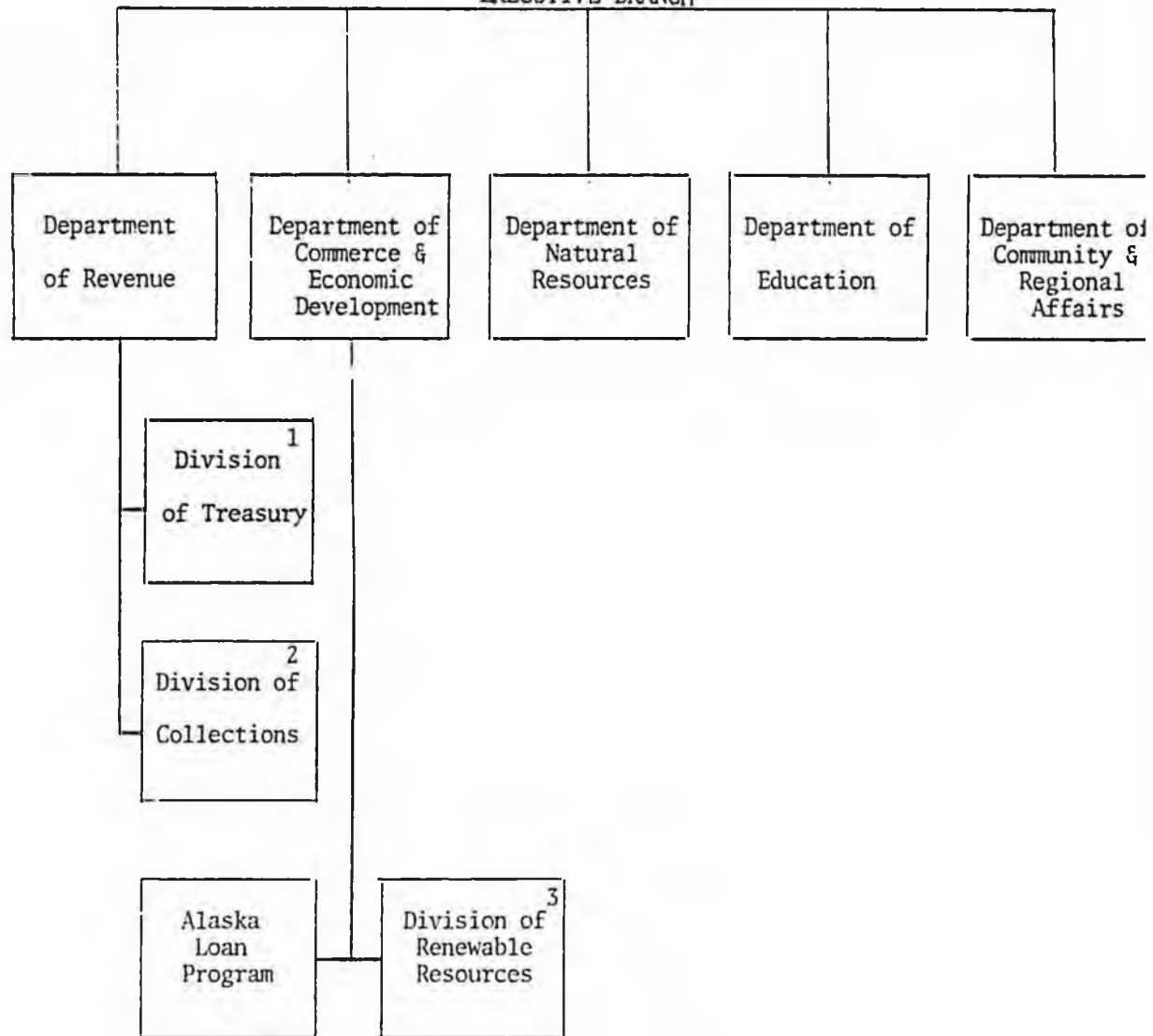
Organizational Chart C



LEGISLATIVE BRANCH



EXECUTIVE BRANCH



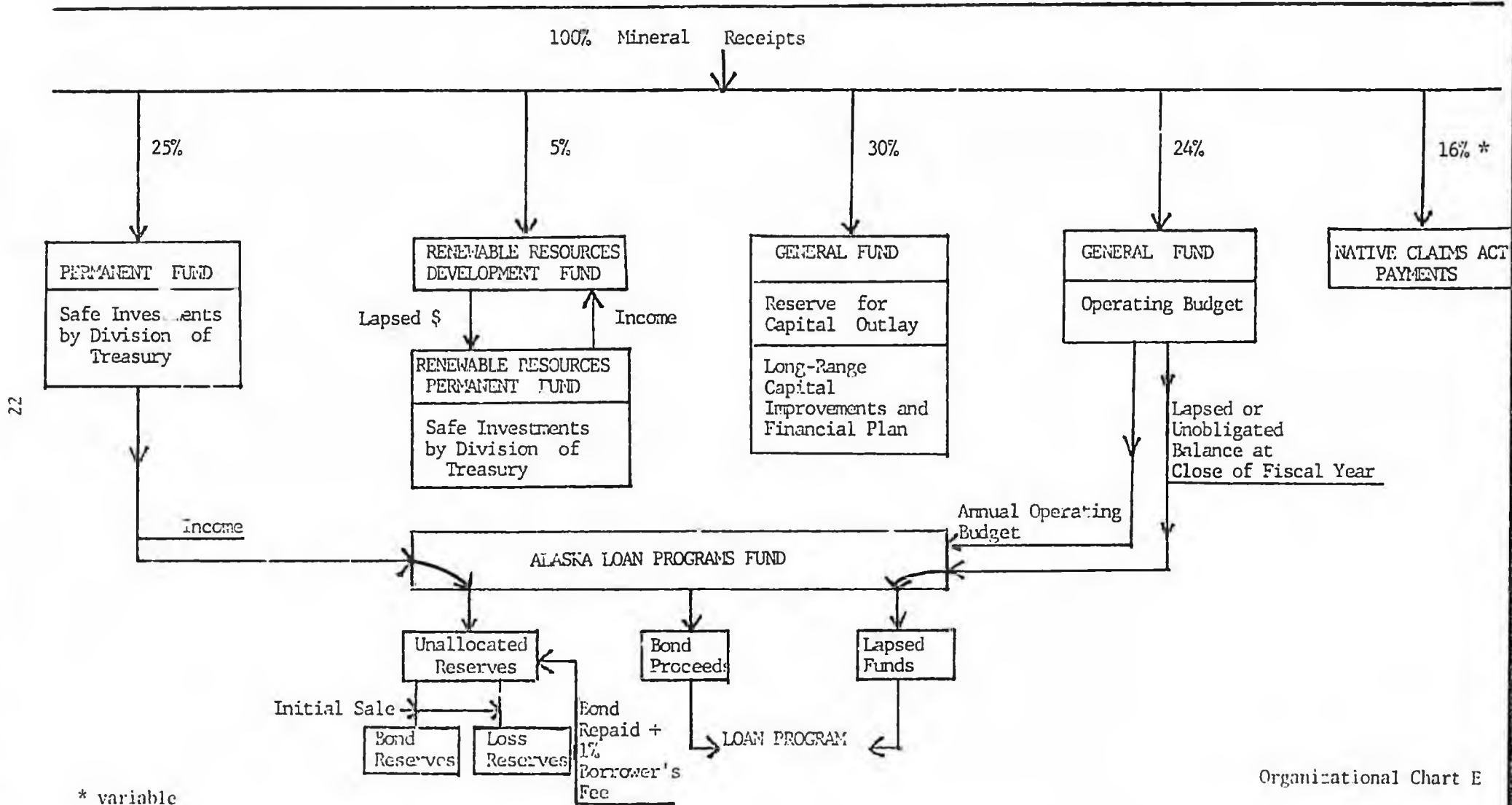
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ORGANIZATIONAL CHART PER SENATE BILL 429
Senate Committee on the Permanent Fund

- 1 Manages all state funds including permanent fund
- 2 Collection agency for Alaska Loan Program
- 3 Provides equity participation or interest incentives through the Alaska Loan Program

Organizational Chart D

SENATE INTERIM COMMITTEE PROPOSED LEGISLATION



Organizational Chart E

Future needs of Alaska's citizens can be met from the savings accounts within the Alaska Loan Program, which are: all unallocated reserves (income from Permanent Fund), unallocated reserve subaccount (General Fund contribution account).

COMPARATIVE SAMPLES

The following Samples A through D have been prepared by the Senate Special Committee on the Permanent Fund.

Sample A

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska

Sample B

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Rural Alaska

Sample C

A Comparative Sample of Available Home Improvement Loans and the Senate Proposed Alaska Loan Program

Sample D

A Comparative Sample of Available Business Loans and the Senate Proposed Alaska Loan Program

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Urban Alaska

TERM: 30 year loan

SAMPLE: \$50,000 home

Lending Agency	Downpayment	Interest	Monthly Pymts	Insurance	Total Cost
Federal National Mortgage Association	\$ 5,000	9.5%	\$ 378.39	\$ 7,500.00	\$ 148,720.40
State Veterans Loan Program	5,000	7.5%	314.65	7,500.00	125,774.00
Federal Housing Authority	1,500	8.5%	372.93	7,500.00	143,254.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	7,500.00	128,560.40
State Banks (not available; pro forma only)	5,000	9.2%	368.21	7,500.00	145,055.60
Alaska Loan Program	5,000	7.0%	299.39	6,699.60	119,480.00
Veteran Incentive	5,000	6.0%	269.80	6,192.00	108,320.00

¹ All the programs have a 10% downpayment with the exception of the Federal Housing Authority which requires 3%.

² Insurance fees are computed at a .5% of the value of the home over a 30 year period and are approximate averages only. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest cost and covers the mortgage only.

³ Interest quoted is taken from bank questionnaires received by the Senate Committee on the Permanent Fund