

LEGISLATIVE FINANCE - HOUSE / SENATE FINANCE COMM. FILES 8879

HB 157 cont. - HB 160 478 69

Prepared by previous chiefs

April 2, 1987

HISTORY OF THE ARCTIC WINTER GAME FUNDING						
YEAR	PARTICIPANTS	INDUSTRY	ANC/FBKS	ALASKA	U.S.A. GOV'T	TOTAL
1970	\$ 10.0 (6-\$10.0-\$44.0=23%) ¹	-0-	-0-	\$49.0 ³	-0-	\$ 59.0
1971	-0-	-0-	-0-	\$15.0	-0-	\$ 15.0
1972	\$35.0 ²	-0-	-0-	\$15.0	-0-	\$ 50.0
1973	-0-	-0-	-0-	\$15.0	-0-	\$ 15.0
1974	\$15.0 ¹	\$5.5 ⁴	\$80.0	\$65.0 ³	\$150.0	\$315.5 ⁵
1975	-0-	-0-	-0-	\$15.0	-0-	\$ 15.0
1976	\$50.0 (6-\$21.1-\$60.0=40%) ¹	\$7.5 ⁴	-0-	\$90.0 ³	-0-	\$147.5
1977	-0-	-0-	-0-	\$15.0	-0-	\$ 15.0
1978	\$21.2 (6-\$23.4-\$66.5=35%) ¹	\$3.2	-0-	\$75.0 ³	-0-	\$ 99.4
1979	-0-	-0-	-0-	\$15.0	-0-	\$ 15.0
1980	\$23.4 (6-\$23.4-\$66.5=35%) ²	-0-	-0-	\$65.0 ³	-0-	\$ 88.4
1981	-0-	-0-	-0-	\$15.0	-0-	\$ 15.0
1982	\$09.0	-0-	-0-	\$41.0 ³	-0-	\$ 50.0
1983	-0-	-0-	-0-	\$130.7 ³	-0-	\$130.7
1984	\$70.0 ²	-0-	-0-	\$15.0	-0-	\$ 85.0
1985	-0-	-0-	-0-	\$15.0	-0-	\$ 15.0
1986	-0-	-0-	-0-	-0-	-0-	.0
	⁶	\$16.2	\$80.0		\$150.0	\$

- 1 Transportation only.
- 2 Transportation and team jackets.
- 3 Includes the annual contribution of \$15,000 to the Arctic Winter Games Corporation for expenses of internal administration and cost of games awards.
- 4 Team jackets, uniforms and associated clothing.
- 5 Anchorage hosted 1984 games.
- 6 Percentage of transportation cost borne by participants.
- 7 Fairbanke hosted 1982 games. Expenses not available.

KPMG Peat Marwick

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Financial Statements and Schedule

June 30, 1988 and 1987

(With Independent Auditors' Report Thereon)



Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.
Alaska Mutual Bank Building
601 West Fifth Avenue, Suite 700
Anchorage, AK 99501

Telephone 907 276 7401

Telecopier 907 274 4953

Independent Auditors' Report

The Board of Directors
Arctic Winter Games Corporation of Alaska:

We have audited the accompanying balance sheets of Arctic Winter Games Corporation of Alaska (Corporation) as of June 30, 1988 and 1987, and the related statements of support and revenue, expenses and changes in fund balances for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arctic Winter Games Corporation of Alaska at June 30, 1988 and 1987, and the results of its operations and the changes in its fund balances for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Peat Marwick Main & Co.

January 5, 1989

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Balance Sheets

June 30, 1988 and 1987

<u>Assets</u>	<u>1988</u>			<u>1987</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Unrestricted</u>
Cash, including unrestricted interest-bearing deposits of \$35,156 in 1988 and \$43,157 in 1987	\$ 48,383	671	49,054	43,488
Firearms, net of accumulated depreciation of \$173 in 1988	3,293	-	3,293	-
Due from Restricted Fund	<u>671</u>	<u>-</u>	<u>671</u>	<u>-</u>
	\$ <u>52,347</u>	<u>671</u>	<u>53,018</u>	<u>43,488</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	1,706	-	1,706	-
Due to Unrestricted Fund	<u>-</u>	<u>671</u>	<u>671</u>	<u>-</u>
Total liabilities	<u>1,706</u>	<u>671</u>	<u>2,377</u>	<u>-</u>
Fund balances	<u>50,641</u>	<u>-</u>	<u>50,641</u>	<u>43,488</u>
	\$ <u>52,347</u>	<u>671</u>	<u>53,018</u>	<u>43,488</u>

See accompanying notes to financial statements.

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Statements of Support and Revenue,
Expenses and Changes in Fund Balances

Years ended June 30, 1988 and 1987

	<u>1988</u>			<u>1987</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Unrestricted</u>
Support and revenue:				
Grant	\$ -	60,000	60,000	-
Registration fees	36,926	-	36,926	274
Jersey and coat sales	4,815	-	4,815	-
Interest	1,998	-	1,998	2,205
Other	980	-	980	-
Total support and revenue	<u>44,719</u>	<u>60,000</u>	<u>104,719</u>	<u>2,479</u>
Expenses:				
Uniforms	4,020	41,056	45,076	-
Travel	26,600	14,750	41,350	140
Game pins	1,497	2,508	4,005	113
Insurance	-	1,650	1,650	-
Postage	992	-	992	518
Office supplies	895	23	918	82
Telephone	886	-	886	74
Facility rental	780	-	780	-
Depreciation expense	173	-	173	-
Other	1,723	13	1,736	63
Total expenses	<u>37,566</u>	<u>60,000</u>	<u>97,566</u>	<u>990</u>
Excess of support and revenue over expenses	7,153	-	7,153	1,489
Fund balances at beginning of year	<u>43,488</u>	-	<u>43,488</u>	<u>41,999</u>
Fund balances at end of year	\$ <u>50,641</u>	-	<u>50,641</u>	<u>43,488</u>

See accompanying notes to financial statements.

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Notes to Financial Statements

June 30, 1988 and 1987

(1) Organization and Summary of Significant Accounting PoliciesOrganization

Arctic Winter Games Corporation of Alaska (Corporation) was organized to select and transport athletic teams from various communities in Alaska to the International Arctic Winter Games (Games). The Corporation receives the majority of its funds from a single State of Alaska grant and from registration fees from the game participants.

Summary of Significant Accounting PoliciesFund Accounting

The accounts of the Corporation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purposes. Separate accounts are maintained for each fund.

The assets, liabilities and fund balances of the Corporation are reported in two self-balancing funds as follows:

- Unrestricted Fund, which includes registration fees and other unrestricted, expendable funds that are available for support of the Corporation's operations.
- Restricted Fund, which is used to account for the State of Alaska grant. Grant moneys are recognized as revenue when expenses have been incurred in compliance with the grant terms and conditions.

Firearms

During the year ended June 30, 1988, the Corporation purchased firearms to be used during participant tryouts and the Games. The firearms are recorded at cost and depreciated on a straight-line basis over the estimated useful life of ten years.

Donated Services

Several unpaid volunteers have made significant contributions of their time to participate in the organization and coordination of activities. The value of these donated services is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Income Taxes

The Corporation is an organization exempt from federal income taxes as an entity described under Section 501(c)(3) of the Internal Revenue Code.

Fund Balances

The fund balances consist of the accumulated excess or deficiency of support and revenue over expenses.

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Grant Revenue and Expenses - Budget and Actual

Year ended June 30, 1988

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Grant revenue - State of Alaska	\$ <u>60,000</u>	<u>60,000</u>	<u>-</u>
Expenses:			
Material and supplies	45,250	45,250	-
Transportation	<u>14,750</u>	<u>14,750</u>	<u>-</u>
Total expenses	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Excess of revenue over expenses	\$ <u>-</u>	<u>-</u>	<u>-</u>

KPMG Peat Marwick

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Financial Statements and Schedule

June 30, 1986

(With Accountants' Report Thereon)



Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.
601 West Fifth Avenue, Suite 700
Anchorage, AK 99501

The Board of Directors
Arctic Winter Games Corporation of Alaska:

We have examined the balance sheet of the Arctic Winter Games Corporation of Alaska as of June 30, 1986, and the related statement of support, revenues, expenditures and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Arctic Winter Games Corporation of Alaska as of June 30, 1986, and the results of its operations and the changes in its fund balance for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of grant revenue and expenditures - budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Peat Marwick Main & Co.

January 16, 1987

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Balance Sheet

June 30, 1986

Assets

Cash, including interest-bearing deposits of \$60,100	\$ 86,290
Interfund receivable	<u>14,460</u>
	\$ <u>100,750</u>

Liabilities and Fund Balance

Interfund payable	14,460
Fund balance	<u>86,290</u>
	\$ <u>100,750</u>

See accompanying notes to financial statements.

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Statement of Support, Revenues,
Expenditures and Changes in Fund Balance

Year ended June 30, 1986

Support and revenues:

Grant revenue	\$ 120,000
Registration fees	33,051
Interest income	4,291
Other	7,291
Total support and revenues	<u>164,643</u>

Expenditures:

Travel	\$ 59,582
Uniforms	25,681
International dues	22,020
Game pins	5,413
Facility rental	2,777
Insurance	1,747
Telephone	1,490
Postage	694
Office supplies	281
Other expenses	2,667
Total expenditures	<u>122,354</u>

Excess of support and
revenues over expenditures 42,29

Fund balance at July 1, 1985 44,00

Fund balance at June 30, 1986 \$ 86,29

See accompanying notes to financial statements.

ARCTIC WINTER GAMES CORPORATION OF ALASKA

Notes to Financial Statements

June 30, 1986

(1) Organization and Summary of Significant Accounting Policies

Organization

Arctic Winter Games Corporation of Alaska (Corporation) was organized to select and transport athletic teams from various communities in Alaska to the International Arctic Games held in Whitehorse, Yukon Territories and Canada. The Corporation receives the majority of its funds from a single State of Alaska grant and from registration fees from the game participants.

Summary of Significant Accounting Policies

Grant Revenues

Grant revenues restricted for specific purposes are recognized as revenues when expenditures have been incurred in compliance with those specific purposes.

Donated Services

Several unpaid volunteers have made significant contributions of their time to participate in the organization and coordination of activities. The value of these donated services is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Income Taxes

The Corporation is an organization exempt from federal income taxes as an entity described under Section 501(c)(3) of the Internal Revenue Code.

Fund Balances

The fund balances consist of the accumulated excess or deficiency of support and revenues over expenditures.

Schedule

ARCTIC WINTER GAMES CORPORATION OF ALASKA
 Grant Revenue and Expenditures - Budget and Actual
 Year ended June 30, 1986

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Grant revenue - State of Alaska	\$ <u>120,000</u>	<u>120,000</u>	<u>-</u>
Expenditures:			
Travel	59,582	59,582	-
Uniforms	25,681	25,681	-
Facility rental	2,777	2,777	-
International dues	-	22,020	(22,020)
Game pins	-	5,413	(5,413)
Insurance	-	1,747	(1,747)
Telephone	-	1,490	(1,490)
Postage	-	694	(694)
Office supplies	-	281	(281)
Other	31,960	2,667	29,293
Total expenditures	<u>120,000</u>	<u>122,352</u>	<u>(2,352)</u>
Excess (deficiency) of revenues over expenditures	\$ <u>-</u>	<u>(2,352)</u>	<u>(2,352)</u>

HB

159

(11)

Date Referred: March 20, 1989
(Waived from Resources 3/20)

FURTHER REFERRALS:

Date of Committee Action: 3/22/89

The FINANCE Committee considered:

SSHB 159

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 159

[NATURAL RESOURCES EXEMPT FROM PROP TAX]

"An Act relating to an exemption from municipal property taxation for natural resources in place; and providing for an effective date."

RECOMMENDATIONS:

- [] be replaced with _____ [] the same title
- [] have attached amendment(s) [] a new title
- [] do pass
- [] do not pass
- [] no recommendation
- [] individual recommendations
- [] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Date/Dept)

- [] fiscal impact _____ [] fiscal note(s) _____
- [] zero fiscal note CRF [] zero fiscal note(s) _____
- [] zero with analysis _____ [] zero fn/analysis _____

SIGNING DO PASS:

Hoffman

Larson

Swackhammer

Brown

Ulmer

Barnes

Phillips

Rieger

Wallis

SIGNING:

(Check approp. column)

	Do Not Pass	No Rec	Amend
_____ Koponen			<input checked="" type="checkbox"/>
_____ Shultz			<input checked="" type="checkbox"/>

co- _____
Chairman's Signature

co- _____

1

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An Act..exemptions..municipal
property taxation.."
Sponsor: Rep MacLean
Requestor: _____

Agency Affected: Community & Regional Affairs
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Jim Plasman, Deputy Director
Division: Municipal & Regional Assistance
Approved by Commissioner: [Signature]
Agency: Community & Regional Affairs

Phone: 465-4750
Date: 3/9/89
Date: 4/11/89

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

Adopted

1 IN THE HOUSE

BY MACLEAN, CATO,
AND ZAWACKI

2 SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 159

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to an exemption from municipal
7 property taxation for natural resources in place; and
8 providing for an effective date."

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

10 * Section 1. TEMPORARY TAX EXEMPTION. Natural resources in place,
11 including proven or unproven mineral and other deposits of valuable mate-
12 rials and timber stumpage, are exempt from property taxation by a munic-
13 ipality.

14 * Sec. 2. STUDY AND REPORT. (a) The Department of Community and
15 Regional Affairs shall study and compare the potential effects of various
16 natural resource taxation options including

17 (1) total exemption from municipal property taxation for natural
18 resources in place;

19 (2) partial exemption from municipal property taxation for
20 natural resources in place;

21 (3) no exemption from municipal property taxation for natural
22 resources in place;

23 (4) total or partial exemption from municipal property taxation
24 for natural resources in place at the option of each municipality.

25 (b) In conducting the study under (a) of this section, the Department
26 of Community and Regional Affairs shall consult with the Department of
27 Revenue and with the Alaska Municipal League. By January 15, 1991, the
28 Department of Community and Regional Affairs shall report to the legisla-
29 ture its findings and recommendations regarding municipal property taxation

1 of natural resource in place.

2 * Sec. 3. This Act is repealed July 1, 1991.

3 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

NORTHWEST ARCTIC BOROUGH

P.O. BOX 1110
KOTZEBUE, AK 99752
(907) 442-2500 / FAX 442-2930

Statement of Dennis J. Tiepelman, Ass't to the Mayor,
Northwest Arctic Borough before the Senate Community and
Regional Affairs Committee, March 02, 1989

MISTER CHAIRMAN:

The Northwest Arctic Borough would like to go on record as supporting Senate Bill 181, "An act relating to an exemption from municipal property taxation for natural resources in place..."

The bill resolves an immediate issue if it is enacted into law: It will exempt for a period of time a requirement that resources be assessed and taxed of an unknown quantity and value on these same resources (e.g. minerals).

The borough supports the concept that in-place resources be permanently exempt in State law, but we recognize that it should be studied and a report be made reflecting what these issues might be in the way of future legislative recommendations. There are differing opinions.

The borough is part of the Alaska Municipal League which passed a resolution in November, 1988 urging the State legislature to seek legislative remedy for an assessment of minerals in-place, and it is currently required by the Department of Community & Regional Affairs, State Assessors Office.

Knowing that the Department of Revenue, Department of Natural Resources, and the Office of the Governor needs to look at the full implication of exempting minerals-in-place, this Senate Bill 181 establishes a process and allows an exemption to be in place until a final report and legislation is enacted within two (2) years. This should allow ample opportunities for other agency concerns to be addressed.

STATEMENT OF DENNIS J. TIEPELMAN
SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE
MARCH 02, 1989
PAGE TWO

Northwest Arctic Borough does not in its current administrative structure maintain an assessor's office which may create a financial liability if no exemption is immediately allowed. We are also acutely aware that the proposed Red Dog mining project in our borough will go into production in about a year, and no one knows its actual resource potential of lead and zinc in terms of realistic dollar amounts.

However, the authority to impose a property tax on improvements at the mine site and the ability to impose a severance tax are much better alternatives than requiring us to place an unknown or arbitrary value on minerals-in-place. These other taxing mechanisms should be considered viable remedies in existence.

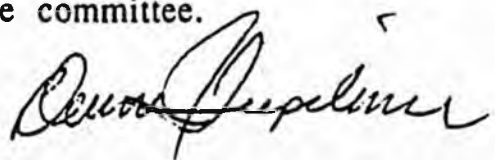
Natural resources as they exist in-place is not very prudent in methods to determine such a value. Large-scale mining as well as the small-time prospector/miner would have difficulty assessing what is the value of minerals before it could ever be developed and extracted for use elsewhere.

Other taxing districts throughout the State have similar problems, and I would urge that an immediate exemption and a prepared report will resolve any questions in due time so that some unforeseen future revenues will not jeopardize the current need for an exemption to be enacted.

The Northwest Arctic Borough is just completing its second year as a "home-rule borough", and there are many other organizational priorities we are working on, including land selections, planning, and financial stability without incurring additional duties of assessing what is taxable or taxing schemes which would now include natural resources in-place.

I would urge speedy deliberations and enactment of legislation that seems to appease every interest group and at the same time does not close the door on changes that might happen in the ensuing two (2) year period.

Thank you for this opportunity to address the committee.



STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

MUNICIPAL & REGIONAL ASSISTANCE DIVISION

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ANCHORAGE, ALASKA 99508-4302
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PHONE: (907) 543-3477

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710 MILL BAY RD.
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PHONE: (907) 488-5738

P.O. BOX 350
KOTZEBUE, ALASKA 99752-0350
PHONE: (907) 442-3898

P.O. BOX 41
NOME, ALASKA 99782-0041
PHONE: (907) 443-5457

March 15, 1989

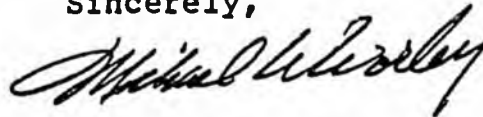
Ken Johnson
Legislative Aide
Representative Sam Cotten's Office
Pouch V
Juneau, AK 99811

Dear Mr. Johnson:

You have asked for the technical position of our office regarding the effects of sponsor substitute for House Bill 159 on the power of the State of Alaska to levy taxes against natural resources in place. The bill clearly states that the temporary tax exemption provided for is from taxation by municipal governments only. The State's authority to levy taxes against these resources is not affected in any way by this legislation.

If you have other questions, or if we can assist you on other matters, please feel free to contact me.

Sincerely,



Michael W. Worley
State Assessor

cc: Representative Eileen MacLean


57

Alaska MUNICIPAL League

TELEPHONE
(907) 586-1325
FAX 463-5480

217 SECOND STREET, SUITE 200
JUNEAU, ALASKA 99801

TO: Representative Eileen Mclean, Chair
Members of the House Community and Regional Affairs Committee

FROM: Scott A. Burgess, Executive Director 

DATE: March 13, 1989

SUBJECT: Sponsor Substitute for HB 159 - Municipal Property Tax Exemption
for In Place Resources

The Alaska Municipal League supports Sponsor Substitute for HB 159. Recognizing the significance of the issue of municipalities imposing or not imposing a property tax on natural resources in place, the AML membership passed Resolution No. 89 - 21 (attached) at the annual business meeting in November 1988. After further analysis, the AML Board of Directors added the legislative resolution of the concern raised by the Department of Community and Regional Affairs earlier this year to its 1989 legislative priorities outlined in the AML Municipal Platform. SSHB 159 reflects the approach supported by the AML and the AML urges passage by the Legislature.

As outlined in AML Resolution No. 89 - 21, municipalities and the State of Alaska are required by law to include the values of natural resources in place (e.g. minerals, timber etc.) on local assessment rolls and in the full value determination, respectively, for purposes of taxation. Neither does because neither has the staff or fiscal resources to value the resources, and the inclusion of values for those resources would likely have a negative impact on residential property and on municipalities under the state revenue sharing and education funding formulas. Exempting the resources from property tax would recognize the difficulty of taxing natural resources in place and the status quo.

However, given the decline in state aid to municipalities and the increasing demand to provide additional local services with local tax dollars, limiting a potential tax base should be approached with caution. When the issue of taxing in place resources was raised earlier this year, the Department of Community and Regional Affairs stimulated significant discussion and debate around the State, especially among the municipalities and with the Department of Revenue. SSHB 159 calls for a temporary, two-year property tax exemption on natural resources in place to recognize the status quo, and it also calls for a study by the Department of Community and Regional Affairs to compare the potential effects of total exemption, partial exemption, no exemption and optional exemption. In conducting the study, DC&RA will consult with the Department of Revenue and the AML. The approach outlined in SB 159 with a temporary exemption and a study will take care of

AML Testimony on SSHB 159
March 13, 1989
Page 2

the immediate situation and provide for more understanding of the issue, a discussion of alternatives, and the development of a consensus on a long-term or permanent solution.

The July 1, 1991 repeal date in Section 3 would provide adequate time for the study to develop recommended long-term legislative solutions (two years) and for the legislature to act. Assessment roles are determined as of January 1st of each year; therefore, in order for the municipality to add property to the assessment rolls if required by legislation passed in 1991 session and to assess in 1992, the assessors would have to do their work during the summer and fall of 1991 and have the property on the rolls by January 1, 1992. If the 17th Legislature does not act in the First Session to implement the recommendations of the study, it will have to extend the temporary exemption.

Finally, the AML wants to clarify in its testimony that municipalities have the authority under law to place a severance tax on natural resources whether or not natural resources in place are exempt from property tax. This is confirmed in an Alaska Attorney General opinion dated April 29, 1986 to the Commissioner of Community and Regional Affairs.

Again, the AML supports SSHB 159 as a legislative priority of municipalities across the State.

~~Attachment~~

Testimony\sb181

Resolution of the Alaska Municipal League

Resolution No. 89-21

**A RESOLUTION RECOMMENDING TAX-EXEMPT STATUS OF
"IN PLACE" RESOURCE RESERVES**

WHEREAS, current Alaska law requires municipalities that levy a property tax to assess, levy, and collect property taxes on natural resources in place, except oil and gas resources, which are mandatorily exempted, and

WHEREAS, the Office of the State Assessor is required under current law to include values for those natural resources in place in the full value determination for municipalities across the State, and

WHEREAS, neither municipalities nor the Office of the State Assessor includes values for those resources on local assessment rolls or in the full value determination, and neither has the staff or fiscal resources to value natural resources in place, and

WHEREAS, the inclusion of values for those resources on local property tax rolls or in the full value determination would be likely to have substantial negative tax impacts on farms, ranches, homesteads, and other residential property, and substantial negative impacts on municipalities under the state revenue sharing and education funding formulas, and


WHEREAS, municipalities already have the power to levy severance taxes and sales taxes against those resources at the time they are developed and sold;

NOW, THEREFORE, BE IT RESOLVED that the Alaska Municipal League supports the passage of legislation that would require, under AS 29.45.030, the exemption from municipal property taxes of all natural resources in place, together with language that would insure preservation of the power of municipalities to levy severance taxes and sales taxes against the development and sale of those natural resources.

Adopted this 18th day of November 1988 in Fairbanks, Alaska.


Heather Flynn, President

ATTEST:


Scott A. Burgess, Executive Director

6

Introduced by: Alaska Association of
Assessing Officers

Date: November 17, 1988

RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE .

RESOLUTION NO. 88 - 2

A RESOLUTION RECOMMENDING TAX EXEMPT STATUS
OF "IN PLACE" RESOURCE RESERVES.

WHEREAS, "current Alaska law requires municipalities which levy a property tax to assess, levy, and collect property taxes on natural resources in place, except oil and gas resources which are mandatorily exempted and

WHEREAS, the Office of the State Assessor is required under current law to include values for those natural resources in place in the Full Value Determination for municipalities across the State and

WHEREAS, currently neither municipalities nor the Office of the State Assessor includes values for those resources on local assessment rolls or in the Full Value Determination, and neither has the staff or fiscal resources to value natural resources in place and

WHEREAS, the inclusion of values for those resources on local property tax rolls or in the Full Value Determination would be likely to have substantial negative tax impacts on farms, ranches, homesteads and other residential property, and substantial negative impacts on municipalities under the State Revenue Sharing and education funding formulas and

WHEREAS, municipalities already have the power to levy severance taxes and sales taxes against those resources at the time they are developed and sold;

NOW, THEREFORE, BE IT RESOLVED THAT THE Alaska Municipal League supports the passage of legislation which would require, under A.S. 29.45.030, the exemption from municipal property taxes of all natural resources in place, together with language which would insure preservation of the power of municipalities to levy severance taxes and sales taxes against the development and sale of those natural resources.

This resolution was passed by the governing body of the

Alaska Association of Assessing Officers on November 15, 1988

MEMORANDUM

State of Alaska
Department of Law

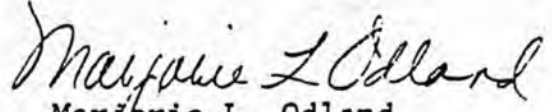
TO Bob Evans, Legislative Liaison
Office of the Governor

DATE April 26, 1988

FILE NO 663-88-0410

TEL. NO 465-3600

SUBJECT Exemption of "in place"
natural resources



FROM Marjorie L. Odland
Assistant Attorney General
Governmental Affairs-Juneau

You have requested our opinion regarding a draft bill exempting "in place" natural resources from municipal taxation (Our file: 773-88-0061). You have several concerns regarding the effect and necessity of this bill which will be addressed individually below.

1. What is the state's current obligation regarding the assessment of "in place" natural resources in the full-value determination of a borough or municipality?

The standard by which a local assessor must assess property is set out in AS 29.45.110(a), which reads:

The assessor shall assess property at its full and true value as of January 1 of the assessment year, except as provided in this section, AS 29.45.060 and 29.45.230. The full and true value is the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer both conversant with the property and with prevailing general price levels.

Under the above statute, a local assessor must assess all taxable property in accordance with the standard. The determination as to whether "in place" natural resources must be included in the assessment of property and the state's liability for insuring the inclusion of assessment of "in place" natural resources by municipalities is central to your question.

To date, municipalities have not assessed "in place" natural resources. Additionally, the state has not required municipalities to include these resources when determining full and true value of property under AS 29.45.110. There is no case law in Alaska interpreting AS 29.45.110 with respect to assessment requirements of "in place" natural resources nor is there a case

Bob Evans, Legislative Liaison
Office of the Governor
663-88-0410

April 26, 1988
Page #2

in Alaska holding that it is mandatory for these resources to be included in property assessment. However, it is the opinion of this office that "in place" natural resources may correctly be included in the full value determination of a municipality under AS 29.45.110(a) and that the Alaska Supreme Court would support this opinion.

Looking to other states' court opinions and treatise law, it is generally held that the right to tax is purely of statutory creation, and practically all of the authorities are to the effect that assessors, in valuing property, may take into consideration the fact that property contains undeveloped minerals in such quantity as to enhance the value of the land over its mere surface value. See 2 A.L.R. 1550-1553 and cases cited therein. It has also been held that minerals in place are not rendered nontaxable merely because of lack of legislative method and regulation for determining their value. Greene County v. Lattas Creek Coal Co., 100 N.E. 561 (Ind. 1913); 72 Am.Jur.2d State and Local Taxation § 764.

There is case law supporting the view that assessors are required to value for taxation all real property according to its market value. Under those decisions, value is measured by all the circumstances and advantages that tend to enhance it, of which underlying minerals, if accessible, are most important items, so that they must necessarily be included in the valuation. See, e.g., Logan v. Washington County, 29 Pa. 373, 14 Mor. Min. Rep. 108 (Penn. 1857). Any element of value tending to affect selling price "may" be taken into consideration by the assessor in arriving at a proper valuation for assessment purposes. Washington County v. Marquis, 82 Atl. 756 (Penn. 1912). The decisions of the courts in these two cases appear to have been based upon statutes similar in wording to AS 29.45.110(a).

Of main import, is that none of the authorities we found held for the premise that liability attaches to the state or local taxing entity for failure to include "in place" natural resources in their assessments. The authorities we found were based upon cases where a taxpayer was challenging the authority of the taxing jurisdiction to include the value of "in place" natural resources in the assessment of their property.

Furthermore, we found no cases holding that local or state assessors are required to search out "in place" natural resources in order to include them in the assessment of property. The cases mainly hold that it is correct for assessors to take into consideration all "facts" directly affecting the value. It is our opinion that this general rule concerns facts which affect

Bob Evans, Legislative Liaison
Office of the Governor
663-88-0410

April 26, 1988
Page #3

the value of the property that are known or prospective; not sought or speculative.

There is authority supporting the view that assessors may take into consideration prospective value of property as well as present value in making assessments and that an added value may be given property for purposes of taxation where there is "sufficient reason" to believe that the property contains mineral deposits in sufficient quantity to give it a value as a prospective mine. However, there is also authority to the effect that not only must property be valued at its present value at the time of the assessment, but that such value cannot be based on a speculative prospective value. See generally 72 Am.Jur.2d State and Local Taxation, §§ 763-764.

In summary, it is our opinion that AS 29.45.110(a) allows for "in place" natural resources to be assessed and included in the full value determination of a municipality. The issue of whether the state is mandated to assess these resources will be included under the next section dealing with any potential state liability for failure to include assessment of "in place" natural resources in the full value determination of a municipality.

2. If "in place" natural resources are not currently exempted from the full value determination, what liability may the state face if the state assessor does not include these in his assessments?

As pointed out above, the state has never required municipalities to assess "in place" natural resources in order to arrive at the full and true value of property in the municipality. The issue is not whether AS 29.45.110(a) can be interpreted to allow for assessment of "in place" natural resources, since we believe that the Alaska Supreme Court would rule that it does. The issue here centers around the state's longstanding application of **this** statute in not requiring these resources to be assessed and whether the state faces liability for not including "in place" resources in the assessments. In short, we do not believe that the state faces any present liability for failure to require municipalities to assess "in place" natural resources without a specific exemption in the law.

We are assuming that the liability anticipated by your question concerns a situation where one municipality complains that the state should be requiring another municipality to assess its known "in place" natural resources in the full value determination as it affects the distribution of municipal revenue sharing and education funding. However, a municipality's claim

Bob Evans, Legislative Liaison
Office of the Governor
663-88-0410

April 26, 1988
Page #4

of deprivation of due process or equal protection against the state must fail. The Alaska Supreme Court recently ruled that a municipality is not a "person" and therefore may not assert due process or equal protection claims against its creator, the state. Kenai Peninsula Borough v. State, ___ P.2d ___, Op. No. 3277 (Alaska, Mar. 4, 1988).

If the state changes its application of AS 29.45.110-(a), rules of contemporaneous construction generally hold that a reversal in interpretation of a statute by the administering agency will be applied only prospectively. 2A N. Singer, Sutherland Statutory Construction § 49.05, (4th ed. 1984 rev.) (hereafter "Sutherland"). In other words, if the state reverses its interpretation and administration of AS 29.45.100(a) requiring municipalities to assess "in place" natural resources in their determinations of full value, the state's new interpretation most likely will apply only to future years; not retroactively.

We note that there is caselaw in other states supporting the following viewpoint:

the mere failure of public officers charged with the duty to enforce statutory and constitutional provisions in respect to the levy and collection of taxes, or the acquiescence of public officers in conditions that exempted certain property from taxation, should not be permitted to stand in the way of the "correct" administration of the law, or be construed to estop more diligent and efficient public officers when they attempt to perform their duty by bringing in to the revenue proper subjects of taxation that had theretofore been allowed to escape the payment of taxes.

Sutherland § 49.05 (citing Louisville v. Board of Education, 154 S.W. 379, 380-381 (Ky. 1913)).

Based upon the above viewpoint, we believe that the present state assessor has correctly pointed out that "in place" natural resources may be included in municipal assessments, and properly should be included. However, as noted above, it is the opinion of this office that no liability attaches to the state for failure to insist on the assessment of these resources at this time.

3. Is it your opinion that this exemption from municipal resources is necessary?

Bob Evans; Legislative Liaison
Office of the Governor
663-88-0410

April 26, 1988
Page #5

Probably yes, for the main purpose of addressing the issue and clarifying the state's application and interpretation of AS 29.45.110(a). We do not believe any retroactive liability will attach if the state does not immediately provide for this exemption in the law. Additionally, the state may wish to consider whether it wants to make the exemption of "in place" natural resources from municipal taxation mandatory upon the municipalities or whether to allow municipalities the option of providing for the exemption of these resources from taxation.

We hope this addresses your concerns. Please do not hesitate to contact us if you need further assistance on this matter.

MLO/pig

MEMORANDUM

State of Alaska

#4

Community and Regional Affairs

TO: Bob Evans
Legislative Liaison
Office of the Governor

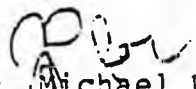
DATE: November 14, 1988

FILE NO: 741X/MWW/JP/1410.2

TELEPHONE NO: 465-4750

THRU: David G. Hoffman
Commissioner

SUBJECT: Proposal To Exempt
Natural Resources
In-Place

FROM: 
Michael Worley
State Assessor
Municipal and Regional
Assistance Division

The Director of the Municipal and Regional Assistance Division, Marty Rutherford requested that I prepare a briefing for you regarding issues and questions which might arise when the above subject is discussed at the AML Conference. I believe the municipalities will be supportive of the proposal. I have not heard from one municipal official who is in favor of assessing these resources. The initial reaction to our proposal at the municipal level has been that people who do not understand the facts perceive our proposal to be a denial to local governments of a valuable revenue resource. However, once they do understand the issue, they regard this mandatory taxing arrangement as an untenable requirement under state law which they wish to have removed. If our proposed bill is not introduced by the Governor, I am concerned that their perception will be that the Cowper Administration wants to impose this mandate against the wishes of municipalities. In any event, this proposal is advanced on behalf of municipalities. If they do not want it, we will recommend it be withdrawn.

The issue will probably be discussed at the Policy Section Meeting on taxation and finance on Thursday, the 17th from 9:00 to 11:30 a.m. Among others, Commissioner Hugh Malone, Gary Lewis (Kat-Su Borough Assessor) and I will be on the panel for that meeting.

Attached is a position paper which states briefly the pros and cons of this issue as we see them. Also attached is a copy of our response to concerns and questions posed by State Economist Greg Erickson.

If you have additional questions on this issue, or if we can be of any help, please don't hesitate to call on us.

November 14, 1988

POSITION PAPER

RE: Proposal to exempt natural resources-in place

SPONSOR: Rules by Request of the Governor

Effects of the Bill:

This bill would stabilize municipal taxing practices, the State Revenue Sharing Program, and the Education Funding Formula by by statutorily recognizing the current property tax practices of municipalities in the State, and the procedures utilized by the Office of the State Assessor in estimating Full Value Determinations. The assessment practices and procedures currently being used by municipalities and the Office of the State Assessor in regard to in-place natural resource reserves are not consistent with existing state law.

Comments:

Although Alaska law technically requires these in-place natural resource reserves to be included in local tax rolls and in the full value determination for municipalities, they have not been so included because of the technical difficulty and expense of accurately determining the value of such reserves. The treatment of these values has become an issue because of the continuing development, lease or sale of the property conveyed to regional corporations under the Alaska Native Claims Settlement Act (ANCSA). As these ANCSA properties are developed or conveyed to other parties, they enter taxable status. Under ANCSA, the surface and subsurface estates to these properties were conveyed separately to village and regional corporations, respectively. Because municipalities must assess property rights to "the record owner" under AS 29.45.160(b), assessors should value resources separately and assess their value to the proper corporation. Although this issue was triggered by ANCSA, it is not confined to only those properties. The municipal assessor must treat all property in a uniform manner; therefore, the practice of valuing these resources will automatically extend to all properties. Several options have been suggested in responding to these problems. The following is a discussion of these options and our position:

Position Paper
RE: PROPOSAL TO EXEMPT NATURAL RESOURCES IN-PLACE
November 14, 1988
Page Two

Option 1: Do Nothing.

Because of the developments discussed above, doing nothing will not preserve the status quo. It will, in fact, require substantial changes in assessment practices throughout the state, increasing the administrative and fiscal burden on municipalities and the state to determine the values of in-place reserves in municipalities. The addition of these values to municipal tax rolls and full value determinations will have effects at both the local and state level. The values of some resources would be high enough on larger tracts (homesteads, farms, etc.) that the owners would very likely be forced to develop the resources in order to pay property taxes, or face property tax foreclosure. The inclusion of these values in full value determinations will reduce revenue sharing funds to municipalities with additional in-place reserve value and will increase the mandatory local contribution under the education formula to those municipalities. Depending upon the amount of these resource reserves, the fiscal impact to local governments could be substantial.

The positive side to this option is that municipalities would continue to have the capacity to levy against a category of taxable property. In most municipalities, we believe the resource value would not be very high. In some, however, it could be higher than the combined value of all other property located in the jurisdiction.

Option 2: Adopt Legislation Permitting Municipalities to Tax Resources in Place by Local Option.

The advantage to this approach is that the State is not depriving municipalities of new property tax dollars which are currently available to them. At the same time, the requirement for municipalities to tax the resources, whether they want to or not, is removed.

Unfortunately, there are many hidden problems associated with this option. The Full Value Determination includes values for all property which is taxable under state and federal law. Under the local option concept the values of these resources would be required to be included in the Full Value Determination whether municipalities elected to tax them or not. Therefore, we would still have the education funding problem which exists in some resource-rich, revenue-poor municipalities (see attached memo). It has been suggested that perhaps the resource values should be added to full value determinations only if municipalities elected to tax them.

Position Paper

RE: PROPOSAL TO EXEMPT NATURAL RESOURCES IN-PLACE

November 14, 1988

Page Three

This proposal raises a significant policy question in the rationale and equity for allowing such treatment for only this type of optionally exempt property but not for other types such as personal property, motor vehicles, boats, or the first \$10,000 on homes, the value of which is required to be included in their full value determinations whether or not it is taxed. It seems likely that allowing one exception to the rule that optionally exempts property to be included in the full value determination would lead to calls from affected municipal governments for the exclusion of other types of optionally exempt property, based upon the amount of such property within each municipality. If all optionally exempted property values were removed the concept of the full value determination would be dramatically altered in that it would represent only the willingness of municipalities to generate property tax revenues, regardless of their potential to do so. The Department of Education has expressed concern that under the optional exemption concept, local education funding could be dramatically increased or reduced each year through the exercise of the option, thereby causing fiscal instability within school districts.

Option 3: Mandatorily Exempt Resources In-Place from Municipality Levy.

The chief disadvantage of this approach is that municipalities would be unable to tax resources in-place if they desired to do so. Municipalities in Alaska do, however, have the power to levy a severance tax against the extraction or removal of the resources at their option. Therefore, the inability to tax the resources would apply only to those not being developed.

No municipality in Alaska has attempted to assess or even to develop a separate value for resources in-place. Therefore, this option would maintain the status quo in that regard. Similarly, the Office of the State Assessor has never attempted to include a value for these resources in municipal full value determinations. With resources mandatorily exempted under this option, we would no longer be required to do so, thereby maintaining that existing practice as well.

The danger of substantially increasing property taxes on larger tracts of land such as homesteads and farms would be eliminated. With the option of adopting a severance tax, however, municipalities could tax those resources in the event they were developed.

Position Paper

RE: PROPOSAL TO EXEMPT NATURAL RESOURCES IN-PLACE

November 14, 1988

Page Four

In summary, we believe Option 3 provides the most logical way to resolve these problems. It guards against disruption of revenue sharing and education funding activities, and insures the status quo will be maintained in both municipal property taxation and the Full Value Determination.



Matanuska-Susitna Borough # 3

P.O. BOX 180A, PALMER, ALASKA 99645-1808 • PHONE 745-9842

ASSESSMENT DEPARTMENT

March 9, 1989

House Community & Regional
Affairs Committee
P.O. Box BH
Juneau, AK. 99811

Dear Committee Members:

The Matanuska Susitna Borough strongly supports HB159. We are a resource rich borough with very present awareness of the dilemmas regarding resource inventory regarding timber. Let us illustrate what current law requires and why taxation of resources in place should be changed through passage of this bill.

I. Consider your reaction if your assessor came to you and said:

You have 30 trees around your home; that equates to 10 cords of firewood, at \$40.00 a cord. The in place resource value of trees is \$400.00, therefore we are adding \$400.00 to your annual assessment.

Conversely if you cut down trees; the assessor says you have X number of stumps --- therefore your assessment is reduced.

Surprisingly this is a realistic extension of what current Title 29 requires. This is also true of other resources; imagine the case of gravel, gold, coal, peat, etc. Any resource that has potential present or future value, even wild grass which could be harvested for hay.

II. Unexplored resources present a different problem:

For instance, everyone knows coal seams exist in the Susitna River basin but where, how much, or what quality would require extensive drilling and sampling. Whether those seams transverse taxable property in the area is completely unknown or within the Borough's or State's reasonable capacity to identify.

Some exploration has occurred and statements made that the BTU value of those reserves equal BTU value of Prudhoe Bay Oil. If true, untaxed resource value exceeds total value of the Borough by many times. As the assessor I would be very presumptuous to tax private property based on speculation that someday the highest and best use may be for coal extraction. Accurate exploration information ranks very high on the list of industry secrets as the State found in relation to oil and gas reserves. The State's solution was a severance tax, which is also a better solution for municipalities.

III. Finally, I'll give you the example of Nome:

Alaska Gold Company owns mining claims under subdivisions. What is the value of the gold vs the value of displacing whole subdivisions to obtain it. This illustrates the very complex issue of surface and subsurface estates and decisions required as regards when the highest and best use of one estate supersedes the other. Also, it raises the question of division of property value of the two estates when ownership is divided.

These examples are all preliminary complexities assuming one can determine a value per unit of resource reflecting markets, infrastructure, feasibility and capitalization required. As you can see, it would be prudent for the municipality required to value resources in place to plan on employing foresters, geologists and a bunch of attorneys.

Aside from the almost comical problems of implementing a program of unknown in place resource taxation, the real issue is that of equity of State DCRA Full Value Determination of untaxed or escaped in place resource value. This is the reason this bill is before you. In some cases resource values are known; MSB timber inventory studies, and Wishbone Hill coal reconnaissance, KPB Beluga coal exploration, Juneau gold mines, Nome gold fields, etc., but what resource deposits cannot be estimated nor accurately determined to be escaped property by the State Assessor. And what effect will the addition of some, but not all, resource values have on equitable School Foundation Funding distribution and Revenue Sharing distribution. These are the issues this bill seeks to resolve.

This summarizes the reasons the passage of this bill is supported by unanimous resolution of the Alaska Municipal League, Alaska Association of Assessing Officers and Alaska Association of Municipal Finance Officers.

Please: DO PASS

Sincerely,



Gary A. Lewis

Matanuska-Susitna Borough Assessor
AML Taxation & Finance Comm. Co-Chair

2

NORTHWEST ARCTIC BOROUGH

P.O. BOX 1110
KOTZEBUE, AK 99752
(907) 442-2500 / FAX 442-2930

Statement of Dennis J. Tiepelman, Ass't to the Mayor,
Northwest Arctic Borough before the Senate Community and
Regional Affairs Committee, March 02, 1989

MISTER CHAIRMAN:

The Northwest Arctic Borough would like to go on record as supporting Senate Bill 181, "An act relating to an exemption from municipal property taxation for natural resources in place..."

The bill resolves an immediate issue if it is enacted into law: It will exempt for a period of time a requirement that resources be assessed and taxed of an unknown quantity and value on these same resources (e.g. minerals).

The borough supports the concept that in-place resources be permanently exempt in State law, but we recognize that it should be studied and a report be made reflecting what these issues might be in the way of future legislative recommendations. There are differing opinions.

The borough is part of the Alaska Municipal League which passed a resolution in November, 1988 urging the State legislature to seek legislative remedy for an assessment of minerals in-place, and it is currently required by the Department of Community & Regional Affairs, State Assessors Office.

Knowing that the Department of Revenue, Department of Natural Resources, and the Office of the Governor needs to look at the full implication of exempting minerals-in-place, this Senate Bill 181 establishes a process and allows an exemption to be in place until a final report and legislation is enacted within two (2) years. This should allow ample opportunities for other agency concerns to be addressed.

STATEMENT OF DENNIS J. TIEPELMAN
SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE
MARCH 02, 1989
PAGE TWO

Northwest Arctic Borough does not in its current administrative structure maintain an assessor's office which may create a financial liability if no exemption is immediately allowed. We are also acutely aware that the proposed Red Dog mining project in our borough will go into production in about a year, and no one knows its actual resource potential of lead and zinc in terms of realistic dollar amounts.

However, the authority to impose a property tax on improvements at the mine site and the ability to impose a severance tax are much better alternatives than requiring us to place an unknown or arbitrary value on minerals-in-place. These other taxing mechanisms should be considered viable remedies in existence.

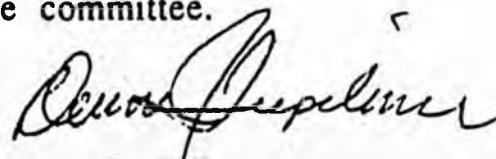
Natural resources as they exist in-place is not very prudent in methods to determine such a value. Large-scale mining as well as the small-time prospector/miner would have difficulty assessing what is the value of minerals before it could ever be developed and extracted for use elsewhere.

Other taxing districts throughout the State have similar problems, and I would urge that an immediate exemption and a prepared report will resolve any questions in due time so that some unforeseen future revenues will not jeopardize the current need for an exemption to be enacted.

The Northwest Arctic Borough is just completing its second year as a "home-rule borough", and there are many other organizational priorities we are working on, including land selections, planning, and financial stability without incurring additional duties of assessing what is taxable or taxing schemes which would now include natural resources in-place.

I would urge speedy deliberations and enactment of legislation that seems to appease every interest group and at the same time does not close the door on changes that might happen in the ensuing two (2) year period.

Thank you for this opportunity to address the committee.

A handwritten signature in dark ink, appearing to read "Dennis J. Tiepelman", is written over the bottom right portion of the typed text. The signature is fluid and cursive.

ALASKA STATE LEGISLATURE

Representative Eileen Panigeo MacLean
P.O. Box 290
Barrow, Alaska 99723



Chairman
Community & Regional Affairs
Committee

Vice-Chairman
State Affairs Committee
Bush Caucus

Member Finance Subcommittee
Community & Regional Affairs
Education
Corrections

WHILE IN JUNEAU

Box V
Juneau, Alaska 99811
465-4525
465-4833

HOUSE OF REPRESENTATIVES

MEMORANDUM

District 22
Ambler
Anaktuvik Pass
Atkasuk
Barrow
Buckland
Deering
Kaktovik
Kiana
Kivalina
Kobuk
Kolzebue
Noatak
Noorvik
North Slope
Borough
Northwest Arctic
Borough
Nulqsut
Point Hope
Point Lay
Selawic
Shungnak
Wainwright

TO: REPRESENTATIVE RON LARSON, CO-CHAIR
REPRESENTATIVE LYMAN HOFFMAN, CO-CHAIR
HOUSE FINANCE COMMITTEE

FROM: REPRESENTATIVE EILEEN P. MACLEAN, CHAIRMAN *Eileen P. MacLean*
HOUSE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

DATE: March 13, 1989

RE: SSHB 159

Sponsor Substitute for House Bill 159 will be heard by the House Community and Regional Affairs Committee on Tuesday, March 14th. I anticipate that this bill will be moved from committee at that time. The next committee of referral for SSHB 159 is the House Finance Committee. I respectfully request that you schedule SSHB 159 for committee hearing at your earliest convenience.

Current state statute allows for the inclusion of "in place natural resources" in state full value assessments and local tax rolls. To date neither the State Assessor nor municipalities have included these "in place natural resources" in their evaluations due to the technical difficulty and expense to do so. No adequate method to precisely determine the value of these resources exists. Municipalities do retain the ability to levy a severance tax on these resources or to impose a property tax on improvements of development sites.

Sponsor Substitute for House Bill 159 would stabilize municipal taxing practices. It would exempt for a two year period the assessment of "in place natural resources." During that time the Department of Community and Regional Affairs with consultation from the Department of Revenue and the Alaska Municipal League would conduct a study of various options of taxing these resources, including but not limited to a complete exemption. The department would give it's report to the legislature not later than January 15, 1991. The exemption of these resources from taxation would sunset on July 1, 1991 allowing the legislature to develop new legislation on the basis of the findings of the Department of Community and Regional Affairs.

This legislation has received support from all areas of the state. A resolution of support was passed unanimously by the Alaska Municipal League (AML) during its November 1988 convention. The Alaska Association of Assessing Officers which includes assessors from the entire state drafted and approved the resolution which was subsequently passed by the AML. The Alaska Municipal Financial Officers have also passed a resolution in support of an exemption for in place resources.

Thank you for your prompt consideration of this issue.

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

MUNICIPAL & REGIONAL ASSISTANCE DIVISION

149 E. 36th AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 561-8586

P.O. BOX 348
BETHEL, ALASKA 99559-0348
PHONE: (907) 543-3475

P.O. BOX 295
DILLINGHAM, ALASKA 99576-0295
PHONE: (907) 842-5135

1001 NOBLE ST. SUITE, 430
FAIRBANKS, ALASKA 99701-4948
PHONE: (907) 452-7126

P.O. BOX BH
JUNEAU, ALASKA 99811-2110
PHONE: (907) 465-4750

710 MILL BAY RD.
KODIAK, ALASKA 99615-6340
PHONE: (907) 486-5736

P.O. BOX 350
KOTZEBUE, ALASKA 99752-0350
PHONE: (907) 442-3696

P.O. BOX 41
NOME, ALASKA 99762-0041
PHONE: (907) 443-5457

March 15, 1989

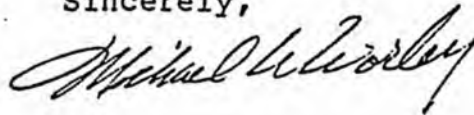
Ken Johnson
Legislative Aide
Representative Sam Cotten's Office
Pouch V
Juneau, AK 99811

Dear Mr. Johnson:

You have asked for the technical position of our office regarding the effects of sponsor substitute for House Bill 159 on the power of the State of Alaska to levy taxes against natural resources in place. The bill clearly states that the temporary tax exemption provided for is from taxation by municipal governments only. The State's authority to levy taxes against these resources is not affected in any way by this legislation.

If you have other questions, or if we can assist you on other matters, please feel free to contact me.

Sincerely,



Michael W. Worley
State Assessor

cc: Representative Eileen MacLean

**Municipality
of
Anchorage**



OFFICE OF THE MAYOR

P.O. BOX 196650
ANCHORAGE, ALASKA 99519-6650
(907) 343-4431

TOM FINK,
MAYOR

March 21, 1989

The Honorable Representative Eileen MacLean
State of Alaska
Pouch V
Juneau, Alaska 99811

Re: House Bill No. 159 - Exemption of Natural Resources in Place

Dear Representative MacLean:

You have asked for the position of the Municipality of Anchorage regarding House Bill No. 159 which exempts from taxation undeveloped natural resources in place.

The Municipality introduced a resolution at the Alaska Municipal League at Fairbanks in November supporting this type of exemption. Although Anchorage is not considered one of the resource rich municipalities in the State, it is our position that failure to provide this exemption could be costly to those which are resource rich. To my knowledge, there is no municipality in the State which assesses and taxes undeveloped resources in place due to the complexity of a system and the expense required to make value determinations.

It is our understanding that if such an exemption is not mandated, the State Assessor's office within Community & Regional Affairs will be forced to make an estimate of the value (at an undetermined cost to the taxpayers of the state) and include that value in the full value determination which his office prepares each year. If that value were included, many municipalities would realize a reduction in revenue sharing and educational assistance.

It is for these reasons that the Municipality of Anchorage supports the passage of House Bill 159.

Sincerely,

Tom Fink
Mayor

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HOUSE COMMITTEE REPORT

(11)

Date Referred: February 23, 1989

FURTHER REFERRALS:

Date of Committee Action: 4/4/89

The FINANCE Committee considered:

HB 160

HOUSE BILL NO. 160 [NEIGHBORHOOD REVITALIZATION INITIATIVE]
"An Act establishing the Alaska neighborhood revitalization initiative; and providing for an effective date."

RECOMMENDS:

- replacing with CS HB 160 (Finance) the same title a new title
- the attached amendment(s)
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

- ### ATTACHES NEW FISCAL NOTE(S):
- fiscal impact Dept. Commerce
 - zero fiscal note
 - zero with analysis

- ### APPROVES PREVIOUS:
- fiscal note(s) published: _____
 - zero fiscal notes(s) published: _____

SIGNING DO PASS:

[Signature] SWACKHAMMER
[Signature] BROWN
[Signature] KUPONEN
[Signature] ULMER
[Signature] BARNES
[Signature] PHILLIPS

SIGNING OTHER THAN DO PASS: (Do Not Pass, No Recommendation, Amend)

[Signature] WALLIS no rec.
[Signature] HUFFMAN DO NOT PASS

CO-chairman's signature
[Signature]

FISCAL NOTE

REQUEST:

Revision Date: 4-4-89 Agency Affected: Commerce & Economic Dev.
Title: Neighborhood Revitalization Initiative BRU: Business Development
Sponsor: House Labor and Commerce Components: _____
Requester: House Finance

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES		66.8	66.8	66.8	66.8	66.8
TRAVEL		5.0	7.0	7.0	7.0	7.0
CONTRACTUAL		7.0	7.0	5.0	5.0	5.0
SUPPLIES		3.0	3.0	2.7	2.7	2.7
EQUIPMENT		6.0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		87.8	83.8	81.5	81.5	81.5

CAPITAL

REVENUE

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER Neighborhood Revitalization and Development Fund		87.8	83.8	81.5	81.5	81.5

POSITIONS:

FULL-TIME		1	1	1	1	1
PART-TIME		1	1	1	1	1
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

See attached

Prepared by: Tom Lawson, Acting Director Phone: 465-2017
Division: Business Development Date: 4-4-89

Approved by Commissioner: Larry Mercurieff Phone: 465-2500
Agency: Department of Commerce & Economic Development Date: 4/11/89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Adopted

FISCAL NOTE ANALYSIS

CSHB 160 (FIN) - ALASKA NEIGHBORHOOD REVITALIZATION INITIATIVE

Assumptions/Program Summary

CSHB 160 (Fin) establishes a program which promotes neighborhood revitalization and development through local initiatives of the state's communities with the assistance of financial institutions and the state. The legislation creates a neighborhood revitalization and development fund to be administered by the Department of Commerce and Economic Development. Neighborhood housing services, community revitalization, and economic development projects are eligible. The program requires that any nonprofit organization applying for the grant funds from DCED must meet the criteria of the Neighborhood Reinvestment Corporation.

(The Neighborhood Reinvestment Corporation was established in 1978 by Congress as a public nonprofit corporation to assist communities in revitalizing declining neighborhoods for the benefit of current residents. That goal is achieved primarily through the development and support of Neighborhood Housing Services (NHS) programs, such as Anchorage Neighborhood Housing Services. In 1986, there were 239 NHS's in 137 cities.)

The bill also provides that the department shall administer technical assistance and training grants for a community-based Alaska Main Street Program for economic revitalization and development projects in older central business districts and neighborhoods using techniques developed by the National Trust for Historic Preservation.

The Finance CS establishes the Neighborhood Revitalization and Development Fund and allows administrative costs of up to \$100.0 to be taken out of the newly created fund. Implementation of the program is subject to annual appropriation from the Neighborhood Revitalization and Development Fund.

It is estimated that about 13 communities may be able to participate in the Neighborhood Revitalization and Development Program. Under the Main Street Program, it is assumed that approximately 12 to 14 communities will participate in program grants.

Personal Services. Staff for the Main Street and the Neighborhood Revitalization and Development Programs includes the following two permanent full-time positions:

Program Coordinator-Development Specialist I (Range 18)	\$51.0
Accounting Clerk II (Range 09), 1/2 time	\$15.8

The statewide coordinator will initiate and coordinate both programs. Under the supervision of the program coordinator, the accounting clerk will provide administrative support for the grant programs. Staff will administer grants for both programs. Grants for the community-based Main Street programs will include provisions for technical assistance and training to accomplish community and economic revitalization.

Travel. Costs include travel to communities participating in the programs.

Contractual Services. Funds (\$7.0) are needed for office related services, including advertising, phone, postage, copying, printing, etc.

Supplies. Funds will be used to purchase office supplies and training materials. Costs will decrease in future years.

Equipment. Costs will only be for the first year and will include purchase of a computer/word processor terminal and miscellaneous equipment.

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 160 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska neighborhood re-
7 talization initiative."

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

9 * Section 1. PURPOSE. The purpose of AS 44.33.436 - 44.33.438, added
10 by sec. 2 of this Act, is to promote neighborhood revitalization and devel-
11 opment through local initiatives of the state's communities with the assis-
12 tance of financial institutions and the state.

13 * Sec. 2. AS 44.33 is amended by adding new sections to read:

14 ARTICLE 6B. NEIGHBORHOOD REVITALIZATION AND DEVELOPMENT PROGRAM.

15 Sec. 44.33.436. NEIGHBORHOOD REVITALIZATION AND DEVELOPMENT
16 FUND. There is created the neighborhood revitalization and develop-
17 ment fund, to be administered by the commissioner. The commissioner
18 shall deposit to the credit of the fund

19 (1) grants and contributions to the fund; and

20 (2) appropriations to the fund.

21 Sec. 44.33.437. POWERS AND DUTIES. (a) The commissioner may
22 use money in the fund

23 (1) to pay the costs of administration of the neighborhood
24 revitalization and development program, not to exceed \$100,000 during
25 a fiscal year, if approved by the legislature by appropriation; and

26 (2) to make grants to

27 (A) nonprofit development corporations that qualify
28 for assistance from the Neighborhood Reinvestment Corporation
29 organized under 42 U.S.C. 8101-8107 (Neighborhood Reinvestment

1 Corporation Act), for neighborhood housing services, neighborhood
2 revitalization, and economic development projects in a community;
3 and

4 (B) persons and organizations that qualify for assis-
5 tance under (b) of this section.

6 (b) The department shall administer grants for a community-based
7 Alaska Main Street Program that provide technical assistance and
8 training to accomplish community and economic revitalization and de-
9 velopment of older business districts and neighborhoods. The program
10 must use techniques developed by the National Trust for Historic
11 Preservation that are designed to stimulate business reinvestment,
12 restore building facades, retain existing small businesses, strengthen
13 the local tax base, create employment opportunities, promote new
14 commercial opportunities in the business district, and help to stimu-
15 late a renewed sense of community pride.

16 (c) In its administration of the grant program, the department
17 shall, consistent with the purpose of AS 44.33.436 - 44.33.438 and the
18 amounts available to make grants under AS 44.33.437(a)(2), equitably
19 distribute the grants, giving priority in the award of grants to
20 projects

21 (1) in communities that have demonstrated significant
22 community support for the proposed projects;

23 (2) that will generate maximum local employment; and

24 (3) that will have the best potential to attract matching
25 revenues from other public and private sources.

26 (d) The commissioner shall adopt regulations necessary to carry
27 out the department's functions under AS 44.33.436 - 44.33.438.

28 (e) The commissioner shall provide for an annual audit of the
29 grants to nonprofit development corporations made under this section.

Sec. 44.33.438. DEFINITIONS. In AS 44.33.436 - 44.33.438

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(1) "commissioner" means the commissioner of commerce and economic development;

(2) "community" means

(A) a municipality; and

(B) a place that is not incorporated as a city and in which 100 or more persons reside as a social unit;

(3) "department" means the Department of Commerce and Economic Development;

(4) "fund" means the neighborhood revitalization and development fund established in AS 44.33.436.

* Sec. 3. AS 44.33.520 is amended by adding a new paragraph to read:

(31) administer the neighborhood revitalization and development program under AS 44.33.436 - 44.33.438.

adopted
4/4/89

A M E N D M E N T # 1

OFFERED IN THE HOUSE

BY KOPONEN

TO: CSHB 160() version "M"

Page 2, following line 15

Insert a new subsection to read:

"(c) In its administration of the grant program, the department shall, consistent with the purpose of AS 44.33.436 - 44.33.439 and the amounts available to make grants under AS 44.33.437(a)(2), equitably distribute the grants, giving priority in the award of grants to projects

- (1) in communities that have demonstrated significant community support for the proposed projects;
- (2) that will generate maximum local employment; and
- (3) that will have the best potential to attract matching revenues from other public and private sources."

Reletter the following subsections accordingly.

Page 2, line 16:

Delete "may"

Insert "shall"

A M E N D M E N T # 2

OFFERED IN THE HOUSE

BY DONLEY

TO: CSHB 160 (L&C)

Page 1, line 29:

Delete "the Alaska Main Street Program established under"

Insert "(b) of"

Page 2, line 1:

Delete "establish"

Insert "administer grants for"

Page 2, line 2, after "Program":

Delete "to"

Insert "that"

Kay Brown

Alaska State Legislature House of Representatives

TO: Representative Ron Larson, Co-Chair
Representative Lyman Hoffman, Co-Chair
House Finance Committee

FROM: Representative Kay Brown

DATE: April 3, 1989 *Kay*

SUBJ: HB 160 - Draft House Finance Committee Substitute

Please find attached a draft committee substitute for for CS HB 160 (L&C), legislation to establish a neighborhood revitalization initiative, for consideration by the House Finance Committee.

The proposed work draft incorporates the changes offered by Representative Donley and also amends the eligible uses of the fund to include "costs of administration of the neighborhood revitalization and development program, not to exceed \$100,000 during a fiscal year, if approved by the legislature by appropriation."

A revised fiscal note has been prepared by the Department of Commerce and Economic Development, making it clear that funding for the fiscal note is be contingent upon an appropriation to the fund.

cc: Representative Donley
Representative Boyer

HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX Y, JUNEAU 99811

(907) 465-3892

February 21, 1989

M E M O R A N D U M

To: Representative Ron Larson, Co-chair
Representative Lyman Hoffman, Co-chair
House Finance Committee

From: Representative Dave Donley, Chair
House Labor and Commerce Committee

Re: Request for hearing - HB 160 and HB 161

I am writing to request that you schedule a hearing on HB 160 and HB 161, the enabling and appropriation bills for the Alaska Neighborhood Revitalization Program, before the House Finance Committee at your earliest convenience.

The Alaska Neighborhood Revitalization Initiative (HB 160) and the companion funding bill (HB 161) creates a statewide program modeled after Anchorage Neighborhood Housing Services to leverage state money with secondary financial markets, both public and private, to redevelop commercial business zones. This program will provide as much as a four to one match for every dollar the state puts in.

The purpose of the Alaska Neighborhood Revitalization Initiative is to provide an opportunity to develop a public/private partnership in communities to:

- Create new short term and long term jobs.
- Create an incentive for attracting new businesses to an area.
- Help make existing businesses more viable, attractive, and stable.
- Leverage business loans made with conventional financing.
- Create a business climate that better serves the Community

There is overwhelming support for the enabling legislation creating the Alaska Neighborhood Revitalization Initiative from the administration, the Legislature, the Alaska Municipal League, and small businesses throughout the state. HB 160 provides an unprecedented opportunity for economic development that will benefit Alaskans everywhere. However, identifying a secure and appropriate funding source for the seed money needed to initiate the program presents a significant challenge, given our current economic climate.

The House Labor and Commerce Committee introduced similar legislation last year with a direct general fund appropriation as the funding source. The measures, HB 430 and 431 passed the House but failed to come before the Senate for a vote prior to adjournment.

The original versions filed this year would have authorized the sale of \$11 million dollars in general obligation bonds as the funding source. Testimony

by the Department of Revenue regarding the possible negative effects of this approach on the state's bond rating convinced the Labor and Commerce Committee to explore other funding sources. Other sources we considered included:

General Fund Appropriation

In view of the state of our economy, the Committee felt that a general fund appropriation in the amount needed to reasonably fund the program was not an appropriate or feasible funding source and that we should make a more definitive recommendation.

Alaska Industrial Development and Export Authority

The effect of taking the appropriation from AIDEA would be to render the agency inoperable and could likely place them in noncompliance with their debt service coverage requirements (see attached letter from AIDEA).

Alaska Housing Finance Corporation

We considered taking the appropriation from AHFC's unrestricted loan account, as per the enclosed proposed Labor and Commerce CS. We asked AHFC to respond to the proposed CS's with a statement about their perception of the effects of such action. Our Committee was sufficiently concerned about the arguments outlined in their response (see enclosed letter) that we looked elsewhere for a funding source, although we were not completely convinced that their concerns were insurmountable.

Railbelt Energy Fund

The Committee's decision, as reflected in the CS HB 160/161 (L&C), was to fund the program through an appropriation from the Railbelt Energy Fund with the condition that no less than ninety percent of the projects funded through the program must be located in Railbelt communities.

* * * *

The program envisioned under HB 160 is essential to promote economic recovery for Alaska's communities. However, there may be a better funding source for the appropriation bill, and we ask that the House Finance Committee consider all options for financing the program when reviewing our committee substitute for HB 161.

Resolution of the Alaska Municipal League

Resolution No. 89-52

**A RESOLUTION SUPPORTING THE IMPLEMENTATION
OF A "MAIN STREET" PROGRAM FOR INTERESTED
MUNICIPALITIES THROUGHOUT THE
STATE OF ALASKA**

WHEREAS, the Fairbanks community has initiated a local Main Street Program to encourage and foster economic growth which will result in a downtown that is a vital, energetic, and attractive center of the community, and

WHEREAS, the City of Fairbanks, the Fairbanks North Star Borough, the Fairbanks Downtown Association, the Interior Delegation, and the State of Alaska have all helped fund the private/public partnership known as "Main Street" to promote downtown revitalization, and

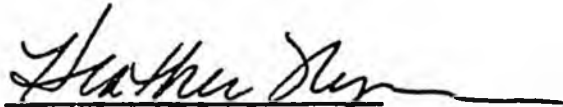
WHEREAS, during the past legislative session, several Alaska communities expressed an interest in developing a statewide program, and

WHEREAS, the "Main Street" program consists of a four-point program which includes organization, design, promotion, and economic restructuring for communities of up to 50,000 population, as well as for commercial districts in larger urban areas, and

WHEREAS, the process is sensitive to the unique history of each community and seeks to emphasize growth without sacrificing the qualities that make each community distinctive;

NOW, THEREFORE, BE IT RESOLVED that the Alaska Municipal League supports the implementation of a statewide "Main Street" program.

Adopted this 18th day of November 1988 in Fairbanks, Alaska.


Heather Flynn, President

ATTEST:


Scott A. Burgess, Executive Director

The Neighborhood Reinvestment Corporation

A congressionally-chartered, public nonprofit corporation, Neighborhood Reinvestment was established in 1978 (P.L. 95-557) to continue the efforts of the Urban Reinvestment Task Force. Its mission includes the revitalization of declining lower income neighborhoods for the benefit of their current residents, and the provision of affordable housing to neighborhood residents.

The Corporation achieves these goals primarily through the development and support of local neighborhood-based partnerships. The most widely known of these is the Neighborhood Housing Services (NHS) program, a partnership of neighborhood residents, business leaders and local government officials.

These and other local partnership organizations form the NeighborWorks system—the nation's largest and most successful systematic approach to neighborhood revitalization. NeighborWorks members are at work in 239 neighborhoods in 137 cities across the country. An additional 52 formerly-declining neighborhoods have been returned to substantial self-reliance through the efforts of NeighborWorks members.

As the anchor for this national system of local partnerships, Neighborhood Reinvestment provides a range of training and technical assistance to help each local partnership establish neighborhood goals and develop the strategies needed to achieve those goals.

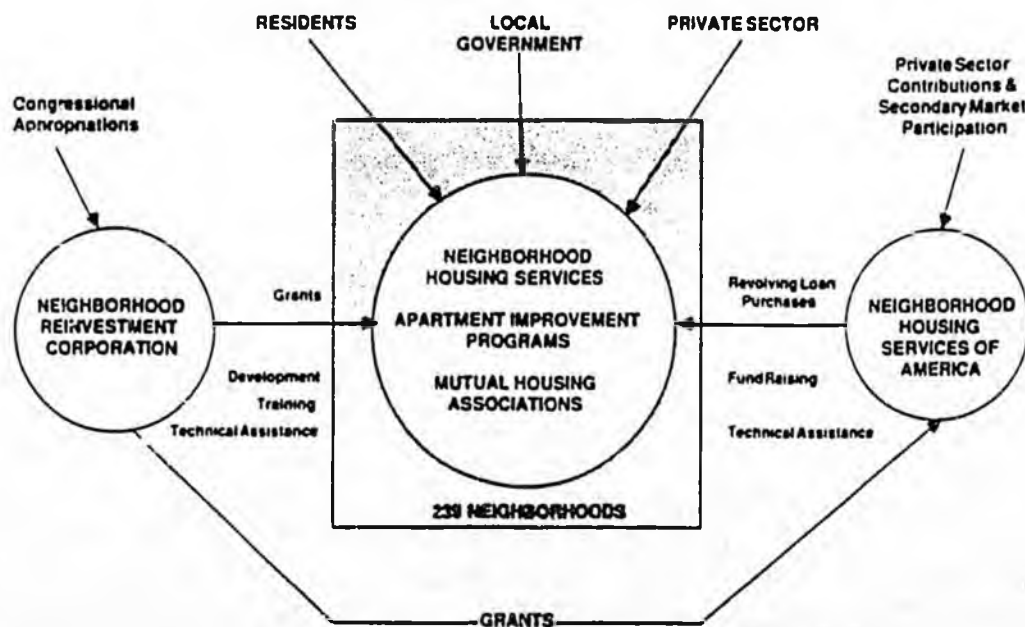
Neighborhood Reinvestment also makes small seed money grants to the local partnerships, which are matched many times over by contributions from local governments, businesses and foundations. In addition, the Corporation provides grants to Neighborhood Housing Services of America, the system's national secondary market.

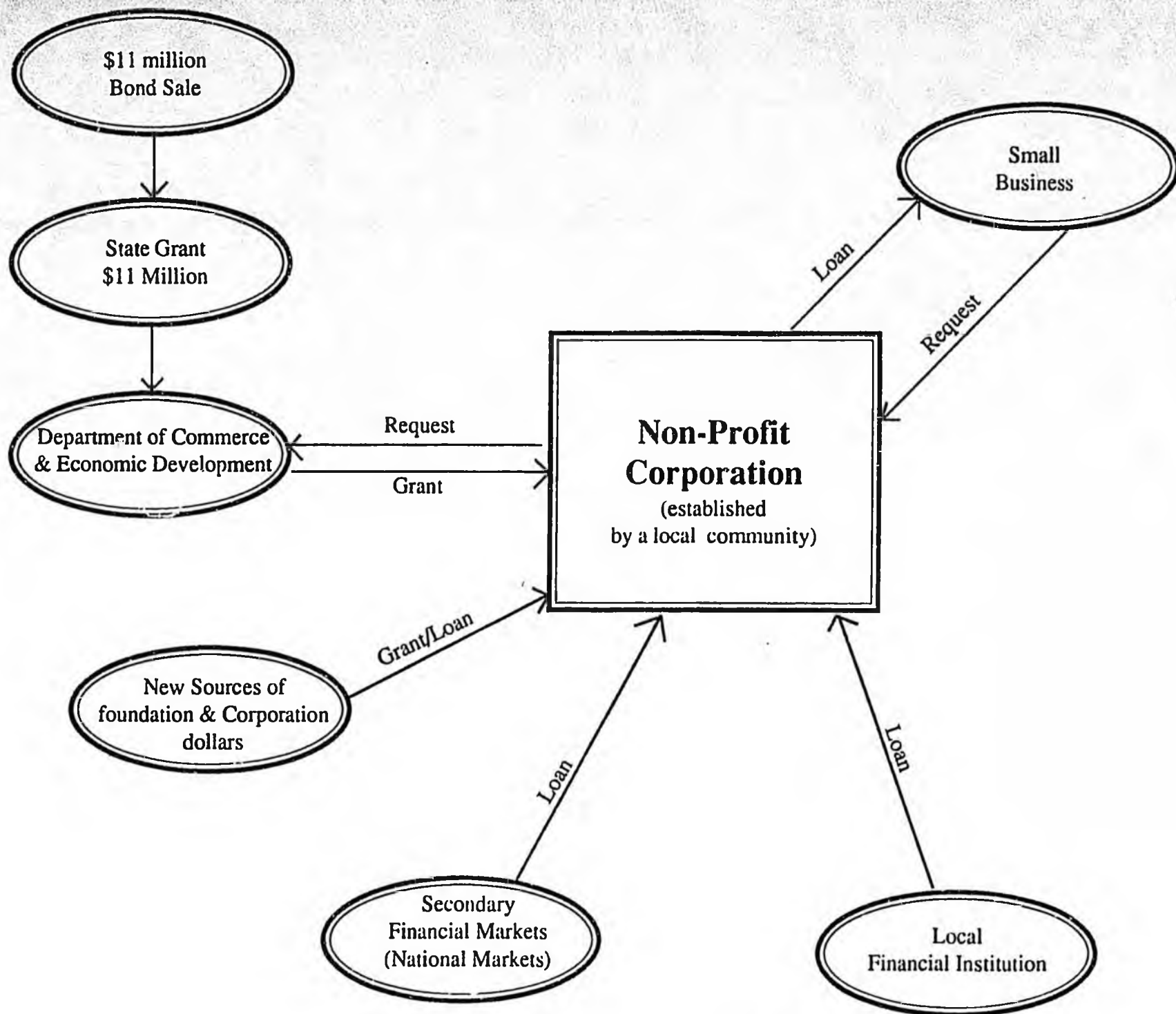
The Corporation received a \$19 million federal appropriation in fiscal year 1987. Since 1974, a total expenditure of \$135 million in federal appropriations by the Corporation and its predecessor has produced an impact of more than \$4 billion in neighborhoods across the country.

The Corporation's board of directors is composed of a Governor of the Federal Reserve, the Comptroller of the Currency, the Secretary of Housing and Urban Development, the Chairman of the Federal Home Loan Bank Board, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the National Credit Union Administration.

Although the Corporation is headquartered in Washington, D.C., the majority of its staff are based in nine districts across the country to better assist the local partnerships they serve.

The NeighborWorks System







March 23, 1989

BOARD OF DIRECTORS

ROBERT B. O'BRIEN, JR., Chairman
 Chairman & CEO
 Carteret Savings Bank
 Morristown, New Jersey

WILLIAM PLECHATY, Vice Chairman
 Executive Vice President
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MARY LEE WIDENER, President
 Neighborhood Housing Services
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 Oakland, California

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ALPHONSO WHITFIELD, JR., Secretary
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 Federal Home Loan Bank of New York
 New York, New York

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 Director of Social Services
 Early Childhood Center of Springfield
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 President
 IDS Bank & Trust
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ED LOPEZ PASTOR
 Maricopa County Supervisor
 District 5
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 Mayor
 Charleston, South Carolina

CLARISSA WALKER
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 Chairman, Community Center
 Minneapolis, Minnesota

PAUL YZAGUIRE
 President
 National Council of La Raza
 Washington, D.C.

ADVISOR

WILLIAM A. WHITESIDE
 Executive Director
 Neighborhood Reinvestment
 Corporation, Washington, D.C.

EXECUTIVE STAFF

MARY LEE WIDENER
 President

CHARL B. BALMUTH
 Senior Vice President

EDITH M. ...
 General Counsel, Partner
 ... Merrington & Sutcliffe

Ms. Cynthia Parker
 Executive Director
 Anchorage NHS, Inc.
 3700 Woodland Drive
 Suite 500
 Anchorage, AK 99517

Dear Cynthia:

As President of Neighborhood Housing Services of America, Inc., I am writing to express my support of your efforts to pass the Alaska Neighborhood Revitalization Initiative. This legislative initiative sounds like an exciting opportunity to expand the activities of NeighborWorks organizations throughout Alaska. If your legislation should be enacted, NHTA would be pleased to assist the state of Alaska in implementing NeighborWorks programs in Alaska by providing an attractive leverage of a portion of the funds available to accomplish program goals.

Within the context of programs developed as a result of this legislation through the Neighborhood Reinvestment Corporation as part of the NeighborWorks Network, you can anticipate NHTA participation to bring about a leverage of 4-1 in private funds for every dollar of grant funds allocated to NHTA to assist you in your efforts. In other words, if a commitment of the size proposed within the context of the State Legislation were to be achieved, for every \$1 million allocated to NHTA, \$4 million in private support would be leveraged in support of your program efforts.

Sincerely,

Mary Lee Widener

Mary Lee Widener
 President

MLW:ym
 NHA0024.2

BOARD OF TRUSTEES

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 Chairman
 ... Read & Company, Inc.
 New York, New York

WAYNE E. HEDREN
 President
 Allstate Insurance Company
 Northbrook, Illinois

RAYMOND M. ELLIOTT
 President, Retired
 Federal Home Loan Bank
 of Boston
 Framingham, Massachusetts

JAMES H. MONTGOMERY
 Chairman & CEO
 Great Western Bank
 Los Angeles, California

ROBERT B. O'BRIEN, JR.
 Chairman & CEO
 Carteret Savings Bank
 Morristown, New Jersey

LELAND S. PRUSSIA
 Chairman of the Board, Retired
 BankAmerica Corporation
 San Francisco, California



Neighborhood Reinvestment Corporation

428 13th Street
Suite 1100
Oakland, CA 94612
(415) 273-4074

Neighborhood Reinvestment Corporation

Board of Directors

Federal Reserve System
Governor Martha R. Seger, *Chairman*

Comptroller of the Currency
Robert L. Clarke, *Vice Chairman*

Secretary of Housing and Urban Development
Samuel R. Pierce, Jr.

Chairman, Federal Home Loan
Bank Board
M. Danny Wall

Chairman, Federal Deposit Insurance
Corporation
Denton C. C. Hope, Jr., *alt.*

Chairman, National Credit Union
Administration
Board Member Elizabeth F. Burkhardt, *alt.*

March 24, 1989

Cynthia Parker, Executive Director
Anchorage Neighborhood Housing Services, Inc.
3700 Woodland Park Drive, Suite 500
Anchorage, Alaska 99517

SUBJECT: Neighborhood Revitalization Initiative
State of Alaska

Dear Ms. Parker,

I want to take this opportunity to advise of our Corporate support for the Alaska Neighborhood Revitalization Initiative.

Neighborhood Reinvestment is a congressionally chartered, public, nonprofit corporation. Its Board of Directors include the Comptroller of the Currency, the Chairman of the Federal Home Loan Bank Board, the Chairman of the FDIC, a member of the Federal Reserve, Chairman of the National Credit Union Administration and the Secretary of HUD.

Neighborhood Reinvestments mission includes the revitalization of both urban and rural areas across the country. Neighborhood Reinvestment initiates development and provides long term support to local neighborhood-based partnerships.

Neighborhood Reinvestment has developed public/private community based nonprofit organizations in over 240 neighborhoods in 140 Cities across the country. Neighborhood Reinvestment has been the catalyst behind a network that represents over \$4.9 billion in community reinvestment within the communities where NeighborWorks Partnerships exist. Our efforts include over \$120 million raised for local revolving loan funds, \$33 million leveraged through the national secondary market, \$486 million in low-interest public loans, and \$1.9 billion in conventional lending.

The Anchorage Neighborhood Housing Services is an excellent example of one of those programs. As a result of the success of your revitalization work and our interest in expanding a broader network within the State of Alaska, we strongly support a Statewide initiative that would make this possible.

A member of the national NeighborWorks_® network

Cynthia Parker, Executive Director
Anchorage Neighborhood Housing Services

March 24, 1989
Page - 2 -

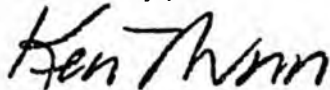
We are able to utilize Neighborhood Reinvestments trained staff, technical capabilities and capital resources to develop locally based public/private partnerships in designated Alaskan communities. Neighborhood Housing Services of America (NHTSA), a partner Organization, anticipates participation at the secondary market level (letter attached).

Neighborhood Reinvestment provides local organizational management and development assistance to NeighborWorks Programs. Our work represents a national focus and network committed to revitalizing neighborhoods within established programs in major cities and rural communities. Neighborhood Reinvestment development involves: a) structuring public/private partnerships, b) developing a local resident and business leadership base, and c) identifying alternative financial resources. Development activity involves total management by Neighborhood Reinvestment.

We are prepared, within the Pacific District, to facilitate the development of additional Programs throughout the State if the Neighborhood Revitalization Initiative and appropriations can be authorized to support that effort.

Two members of our Board of Directors are planning visits to you at the Anchorage Neighborhood Housing Services in May, 1989. I know they will be interested to learn of the State Initiative and to provide any assistance that they can.

Sincerely,



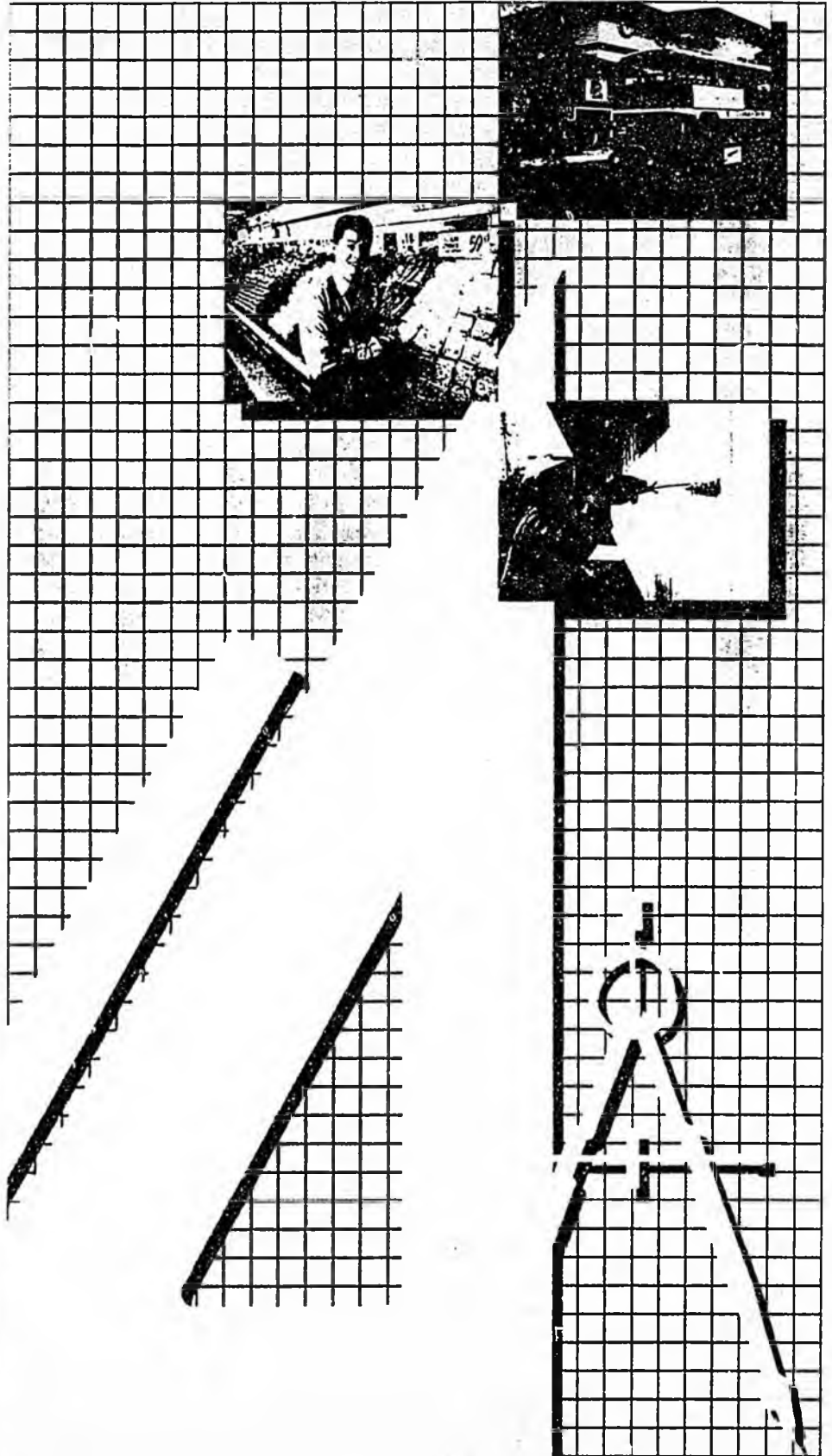
Ken Nunn, Director
Pacific District

Attachments

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

ANCHORAGE NEIGHBORHOOD HOUSING SERVICES, INC
1987-88 ANNUAL REPORT

ANHS continues its
commitment to
strengthen the
community through
reinvestment.





“The Corporation is dedicated to the development of programs that encourage the stability of our neighborhoods and enhance business growth.”

This annual report provides a glimpse into the variety of loan programs and activities offered by Anchorage Neighborhood Housing Services over the last year and a half.

The corporation is dedicated to strengthening the vitality of existing neighborhoods through targeted revitalization strategies and specific community development activities. We've been providing loan programs for both residential and business purposes, as well as developing community projects to encourage neighborhood stabilization and enhance compatible business growth. To date, Anchorage Neighborhood Housing Services has targeted three neighborhoods in Anchorage: Nunaka Valley, Government Hill and Spenard.

The Corporation has seen a number of changes over the life of this annual report. The quality of life seems more fragile in the face of a strong economic downturn, while housing vacancies caused by foreclosures threaten to erode the strength of our fine neighborhoods. New programs will help put homeowners back into these units while we continue to work to revitalize the Spenard Commercial District.

We've been working individually with many homeowners to assist them through the current economic period, providing additional counseling, and working with our existing borrowers through these times. Our original loan portfolio remains strong despite the “non-bankable,” and “high risk” nature of our loans, with a less than 3% delinquency factor.

In the Spenard Commercial District, we have been providing business loans to existing and new businesses in order to continue the revitalization efforts of the Spenard redevelopment strategy. We are pleased that the efforts of the Spenard Road Design Review Committee and Commercial Loan Committee have blended so well in focusing business redevelopment efforts with the public improvements of the roadway.

On a city-wide basis, this last year we launched the ‘Paint The Town’ project, involving over 700 volunteers in a week-long event that painted the homes of some 70 plus individuals in need of assistance. Businesses and individuals contributed to pay for the cost of this project, which acted as a catalyst to bring together a spirit of volunteerism in response to a need.

In response to the problems of the Anchorage real estate market, ANHS has identified several foreclosed condominium properties, and is in the process of converting them into housing cooperatives. This will provide home ownership opportunities for people who have been precluded from home ownership and, because of the structure of the cooperative, provide stable property maintenance for the benefit of our neighborhoods. This is an example of how our strategies have changed to ensure long-term stability within our community.


Cynthia Parker, Executive Director

This past year has seen Anchorage Neighborhood Housing Services begin to implement many of the strategic plans formulated over the past few years. It has been exciting to participate in this process. Despite city and state financial cutbacks, ANHS has been able to successfully move ahead with our program goals, which have included the expansion of services we have traditionally offered.

During the last several years, ANHS has worked with the Municipality, local residents and businesses to help lay the groundwork for redeveloping the Spenard Commercial District. The vision is now becoming reality. During the summer of 1988, Phase II of the roadway project moved ahead, with completion scheduled for the spring of 1989. The ANHS Commercial Loan Fund was established and funded and began lending money to help make the business district more viable and attractive.

Falling real estate values in the greater Anchorage area has meant that fewer homeowners have been able to take on additional debt to make improvements to their homes. For ANHS, this has led to a reduction in our traditional activity of home improvement lending. We have addressed this problem by coordinating our first city-wide effort, Paint The Town. The project's goal was to help improve housing stock and beautify the city by painting the exterior of homes of families in need. Paint The Town was a resounding success, enlisting 700 volunteers to paint the homes of 70 senior citizens, fixed income families, disabled and single heads of households.

ANHS has also been actively exploring strategies to strengthen the real estate markets in our target neighborhoods, and to develop some innovative techniques for home ownership. We are currently studying the possibilities available in mutual housing associations and limited equity cooperatives. Through these concepts, housing stock which is currently vacant, abandoned or underutilized will be improved and restructured for home ownership by low to moderate income people. It will improve the housing stability in our target neighborhoods and make the opportunity of home ownership available to a segment of the market which previously was limited to renting. In these efforts, ANHS has been working closely with groups involved in residential real estate, both in the private and public sector.

ANHS has continued to work with all three target neighborhoods in an effort to improve the quality of life for those who live there. I would like to thank everyone who has taken the time to get involved, including state and local officials, residents, business people, the ANHS Board of Directors and especially the ANHS staff who continue to adapt and innovate during these difficult economic times.



Barry Hulin, President



“ANHS has been actively exploring strategies to strengthen the real estate market . . . and to develop innovative techniques for home ownership.”

For every dollar that ANHS has invested, an additional \$33 in public and private funds has been reinvested through effective leveraging.

Anchorage Neighborhood Housing Services is a private non-profit corporation, founded in 1982 to improve neighborhoods through the development of public-private partnership. Initially focused in Spenard, ANHS originally concentrated on housing stock rehabilitation as a strategy for revitalizing neighborhoods. Since those early days, ANHS' strategy has become more diverse and complex, and now includes planning major infrastructure improvements. Additionally, several loan programs aimed at improving both the residential and business districts have been initiated.

Partnership Model ANHS accomplishes its goals by using an effective partnership between neighborhood residents, business leaders and government representatives. This model is utilized throughout the Corporation, in its board and committee structure. It guarantees that a public-private working group provides active representation of all in the decision-making.

Target Neighborhoods Since its initial focus on residential activities in Spenard, ANHS has been steadily increasing its constituent base and redevelopment activities. In 1984, it added commercial programs to Spenard's business district agenda. In 1986, several new neighborhoods were added after a city-wide neighborhood analysis. The two neighborhoods, Nunaka Valley and Government Hill, have been integrated into the Corporation's existing board and committee structure. Independent committees facilitated by ANHS in all three neighborhoods continually examine their

neighborhood's needs for both public and private improvements in their areas.

Strategic Development With the goal of increasing both public and private investment in its target neighborhoods, the ANHS approach is to help the communities develop strategic plans and to then assist in their implementation. ANHS utilizes the strength of its partnership to assist in the development process, enabling the community's foremost leaders to participate in preparing the long-range plans. Each community prepares its own strategy, taking into account the unique needs and features of the area.

The strategies are comprehensive, addressing housing, business and community-wide needs. Infrastructure, such as roadway improvements, street lighting, parks and recreational facilities are used to stimulate private investment and community pride. Public improvements in a neighborhood often lead to increased neighborhood involvement and broader visions of what a neighborhood can become. ANHS works with the communities to identify such projects, and then helps to obtain financing to accomplish them.

Community Reinvestment One goal of ANHS' programs is community reinvestment. That is, the direct efforts of ANHS through loans and other programs, especially when combined with public improvements, often serve as an incentive to individuals and private investors to improve and invest in both commercial and residential properties. Thus, ANHS' funds leverage private capital to improve the neighborhoods. Since 1982, ANHS funds have been leveraged 1:15 with private investment in the target neighborhoods. When public investment in the neighborhoods is added, ANHS funds have been leveraged 1:33. Both private and public investment have decreased in Anchorage since ANHS' early years. However, ANHS loans continue to leverage additional residential

Construction Activity 1982-1987

	1982-1986	1986-87	Total
Total Private Investment	\$35,137,439	\$1,317,607	\$36,455,046
ANHS Investment	2,842,525	1,011,675	3,854,200
Total Reinvestment	\$37,521,339	\$2,544,507	\$40,309,246

Neighborhood Spinoff Activity

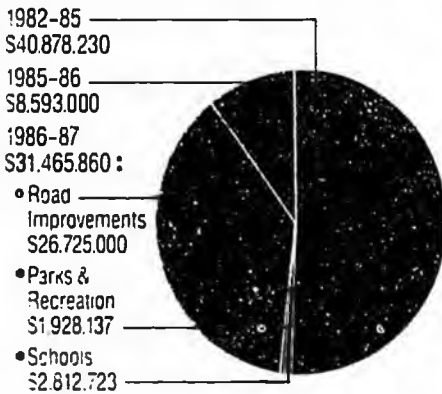


Construction Activity 1982-1987

and commercial investment in the ANHS neighborhoods.

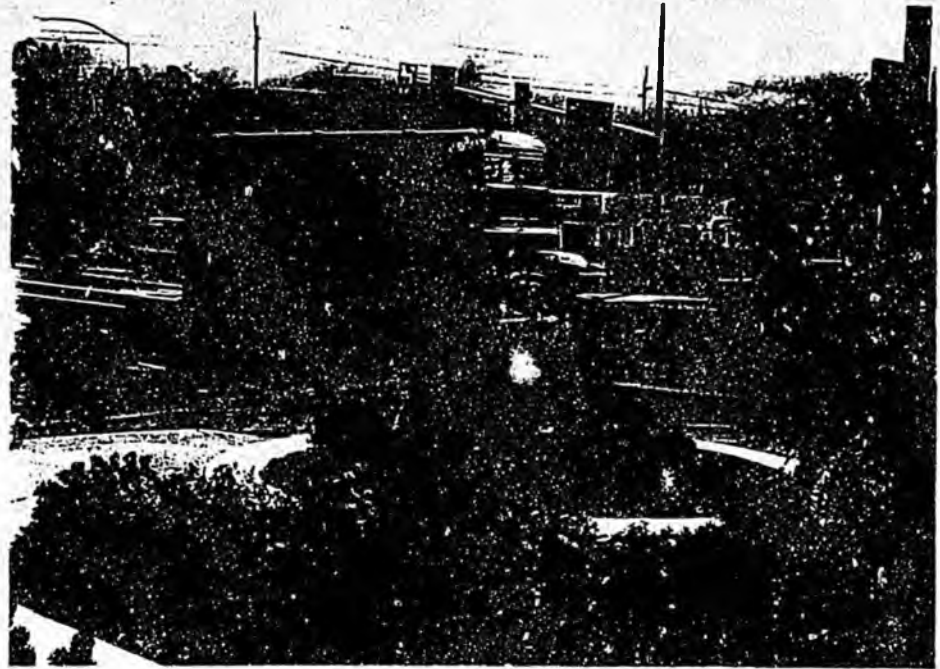
Public Improvements ANHS has worked with its target neighborhoods to accomplish public improvements in its target neighborhoods. During this fiscal period, the improvements included the development of the Asian Cultural Center adjoining Northwood School; the development of Northwood, Old Hermit and Sisterhood Parks in Spenard, Nunaka Valley Park and Charles Harvard Park in Government Hill. The pie chart details the amounts spent on public improvements in the target neighborhoods since ANHS has been involved.

Public Improvements — 3 Target Areas



The loan fund which ANHS administers is an important vehicle for accomplishing the strategies' goals. The Residential and the Commercial Loan Programs provide financing for housing and business improvements. ANHS loans are made according to specific guidelines which enable development that conforms to the overall neighborhood strategy. Thus, improvements made through financing from the loan funds achieve both individual and community benefits.

A less tangible but equally important role that ANHS plays is increasing neighborhood exposure, community pride, and improving neighborhood image. Some of this is achieved as a direct result of the loan programs; some occurs as a



product of public improvements: some results from organized neighborhood self-help projects. Gradually, the community's self esteem begins to change as the residents become more involved. ANHS helps plan activities such as trash cleanup days, fun runs through the neighborhoods and adopt-a-park programs.

As a mechanism to stimulate business attraction, ANHS sponsored the Double Decker Bus operation in 1987 and 1988. The bus brought visitors and tourists through Spenard, stopping at restaurants, hotels, shopping centers and downtown. It greatly increased the visibility of the neighborhood business district. During the summers of 1987 and 1988, nearly 45,000 passengers rode the bus.

Summary The goals of ANHS' various programs are to reverse decline in the target areas, to increase both public and private investment, and to encourage development in a strategic manner.

ANHS creates public/private partnerships to develop and implement plans that increase community reinvestment.

Northland Soy is Alaska's only tofu producer and sprout growing operation . . . ANHS was able to offer financing which allowed business expansion and use of a vacant property within the Spenard Commercial District.



Learning about the availability of ANHS' Commercial Loan Fund, Bernie Souphanavong moved Alaska's only tofu production and sprout growing business to Spenard when he purchased a property which allowed him to expand his business. Northland Soy has grown in size, sophistication and efficiency during its eight-year history, from a hand-watered operation to one that is nearly completely mechanized. ANHS was able to offer Northland Soy financing for the rehabilitation and purchase of a property which had been vacant for over a year.

This move has allowed him to expand and diversify his business operation. It brings an empty building into operation and six new full-time employees to Spenard.

Souphanavong was awarded SBA's Minority Business Person of the Year in 1987 and SBA's Small Business Person of the Year in 1988.

Redeveloping the Spenard Commercial District has been an integral part of redesigning the roadway which bisects the Spenard residential neighborhood. The commercial area had deteriorated and was negatively impacting the neighborhood's image. The roadway was unsafe for both pedestrians and vehicles, without sidewalks, turn lanes and other amenities which simply did not enhance the business climate. Thus, ANHS identified, as a timely opportunity, the development of a comprehensive plan to address these issues. ANHS has served as the community's facilitator in this long-term project, staffing the Spenard Road Design Review Committee and administering its Commercial Loan Programs.

Job Creation During a period of declining employment, the Spenard Road redevelopment project has had a significant impact on employment: temporary and permanent, public and private. A total of 90 jobs were created for a four- to six-month period, approximately 340 person-hours, for the road project itself. In addition, 27 temporary construction jobs and 21 permanent new jobs were created by private redevelopment projects which were related to the road development. Approximately 90 jobs are added to businesses each summer to manage the increased seasonal demands. This seasonal increase is in large part due to new developments along the roadway, which have made Spenard a more attractive place for businesses, visitors, consumers and residents.

In drafting the Neighborhood Business Development Loan Fund's policies, ANHS closely adhered to the strategy that was developed for the area. The loan fund guidelines, which are intended to foster a sense of cohesiveness to the district's physical development, include specific recommendations regarding

requirements such as landscaping, site planning, facade treatment, and signage.

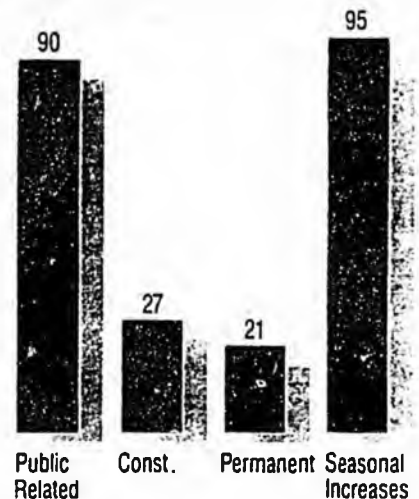
Loans are reviewed by a Commercial Loan Committee, comprised of local residents and business people, bankers, real estate professionals and government representatives. Ultimate decision-making authority rests with the Board of Directors.

Leveraging Outside Capital ANHS has a discrete pool of funds to use in its commercial revitalization efforts. While the commercial loans are backed by a secondary market for loans utilizing real estate collateral, the funds must be used prudently to allow for the greatest possible impact. One way ANHS has found to increase the availability of funds is to use the loan fund to leverage outside capital. ANHS accomplishes this by providing gap financing, equity capital, or simply by participating with other lenders, potentially lowering the effective rate for the borrower.

Flexibility The ANHS staff works closely with its loan clients, designing loans which specifically meet their individual needs. Terms, rates, and loan requirements vary, depending on the situation. If necessary, ANHS can take an equity position in the deal. ANHS has utilized its ability to be flexible in approving several loan requests.

National Model The Neighborhood Business Development Loan program serves as a national model for community development loan funds. This fund's uniqueness is its strategic development agenda, which will ultimately produce an attractive, viable business district.

Spenard Redevelopment Project
233 Jobs Created 1987-88



The Spenard redevelopment project has had a significant impact on new employment in the area.



Jack and Michelle Shockley have lived in Nunaka Valley with their two children since 1989.

"We believe in small neighborhoods. That's why we moved to Nunaka Valley five years ago. We've been active in Anchorage Neighborhood Housing Service programs here, like fixing up the park and putting in the volleyball court. Those things help make Nunaka Valley a better place to live.

"We've been working through ANHS on this house for two years in a row. We painted our home, moved the front door and built a car port. Next summer we plan to finally do landscaping.

"Since ANHS has come to Nunaka Valley, we've really been able to see the neighborhood improve. Sometimes it's little things, but especially in a down economy, those little things make a big difference."

ANHS offers a variety of lending, technical assistance and support programs to its target neighborhoods. These programs comprise the basis for building stronger, self-reliant and revitalized neighborhoods. Programs are continually being developed to address the on-going and unique needs of each community. Program implementation follows the partnership model, involving community residents, business people and government representatives.

Lending Programs ANHS home rehabilitation loans are administered by its Residential Loan Committee, comprised of real estate professionals, bankers and residents. ANHS provides loans to neighborhood residents for removing code violations from their properties, and making other home improvements. The loans are made regardless of age or income, with rates and terms varying by individual



Judith Connors has lived in her Spenard home since 1974. She raised five sons in this home which was built in 1956. "After that, I needed a new house! And I practically have one thanks to Neighborhood Housing Services." With a \$21,000 budget, Mrs. Connors installed a new pitched roof, a new bathroom, new windows in the back bedrooms, brought the house up to code, re-sided and painted. "I couldn't be happier," she says of her rebuilt house.

requirements. ANHS has made a total of 84 loans totalling \$1,011,675 from 6/30/86 through 6/30/88.

The Exterior Beautification Program was specifically designed to help make neighborhoods more attractive from a streetside perspective. Loans of up to \$3,500 are made at 5% interest with a maximum three-year term. These loans are to be used for painting, landscaping, fencing, siding, decking, gutters and downspouts. Loans are awarded based on credit approval and visibility in the neighborhood. To date, 179 loans have been made under this program.

The Driveway Paving Program provides a way for residents to lower the cost of paving their driveway by working together with their neighbors. ANHS coordinates requests on a neighborhood by neighborhood basis and then solicits bids from paving contractors.

Development Programs With the goal of helping to stabilize its target areas, ANHS has begun a development role in response to the current residential real estate slump facing Anchorage during this period. High vacancy rates have led to empty apartment and condominium projects which can quickly deteriorate. One strategy ANHS has identified to address this issue establishes a Mutual Housing Association to serve as a property developer with the goal of converting such empty projects to limited equity cooperatives.

ANHS has identified some key properties, has conducted a market study to assure adequate demand for cooperative conversion, and has appointed a Mutual Housing Advisory Committee to study the conversion and development process. The committee has concluded that a Mutual Housing Association should be established as a subsidiary of ANHS and that it should continue an on-going development and training role.

Technical Assistance and Support ANHS

offers residents a variety of technical assistance and support programs to help them determine their needs, accomplish their goals, and improve their neighborhoods. Technical Assistance programs offered include the following:

- Contractor Referral
- Construction Monitoring
- Loan Packaging
- Loan Workout Counseling

- Business Start Up Planning
- Community Planning
- Home Inspections
- Home Improvement Assessments
- Weatherization Assessments.

Neighborhood Support programs include beautification and clean-up projects, park planning and implementation, supplier discounts, and sponsoring community events.

"The ANHS Loan Fund allowed us to begin our new business in Spenard. With airport access and the new look, it was the perfect place."



After twenty years experience in the travel business in Alaska, Don and Sue Williams wanted to own their own travel agency. They came to ANHS requesting funds for start-up and operating capital. The business is located in a business park fronting on Spenard Road within the commercial district. During Quality Travel's first period of operation, each month surpassed the business' initial dollar projections. Quality Travel employs four full-time travel agents, plus the two owners.

This was ANHS' first year to organize and coordinate Paint The Town, a one-day painting marathon in which 70 homes of families in need were painted at no charge to the homeowner. The houses were painted by teams of volunteers. Eligible homeowners included senior citizens, fixed-income families, single heads of households and disabled people.

Five private businesses sponsored the project which involved over 700 volunteers. The sponsors, Fred Meyer, Key Bank of Alaska, KTUU-Channel 2, Spenard Builders Supply and The Anchorage Times, donated more than \$85,000 in cash, materials and services to make the project work. The volunteers were drawn from church groups, businesses, and service clubs.

The Paint The Town project provided an opportunity for a broad cross section of Anchorage to roll up their shirtsleeves and help their neighbors. At the end of a hard but fun day of painting, all the participants were invited to a picnic to celebrate.

ANHS was awarded an Urban Beautification Award from the Municipality's Urban Design Commission for its efforts in this project. ANHS plans to continue this project as a regular part of its program planning for the future.



Assemblyman Craig Campbell gets a tough spot.



Al Bramstead Jr., KTUU Channel 2

"We were pleased. . . . It was one of those opportunities to be involved with something that captured the spirit of the community and was so visibly positive."

"Paint The Town gave all of us a way to do something positive for our community. In addition to the tangible benefits, the kind of spirit that develops when people help their neighbors makes Anchorage a better place to live. Key Bank of Alaska is proud to have been a part of Paint The Town; we couldn't think of a better way to say 'We Believe in Alaska.'"

Michael J. Burns, President,
Key Bank of Alaska

"Fred Meyer has traditionally been active in supporting the communities in which we serve through in-kind, as well as cash contributions. A survey revealed that many of our employees are active volunteers, providing many needed services to the communities. Projects like Paint The Town bring the entire community together, and we're honored to be a major sponsor of such a worthy event."

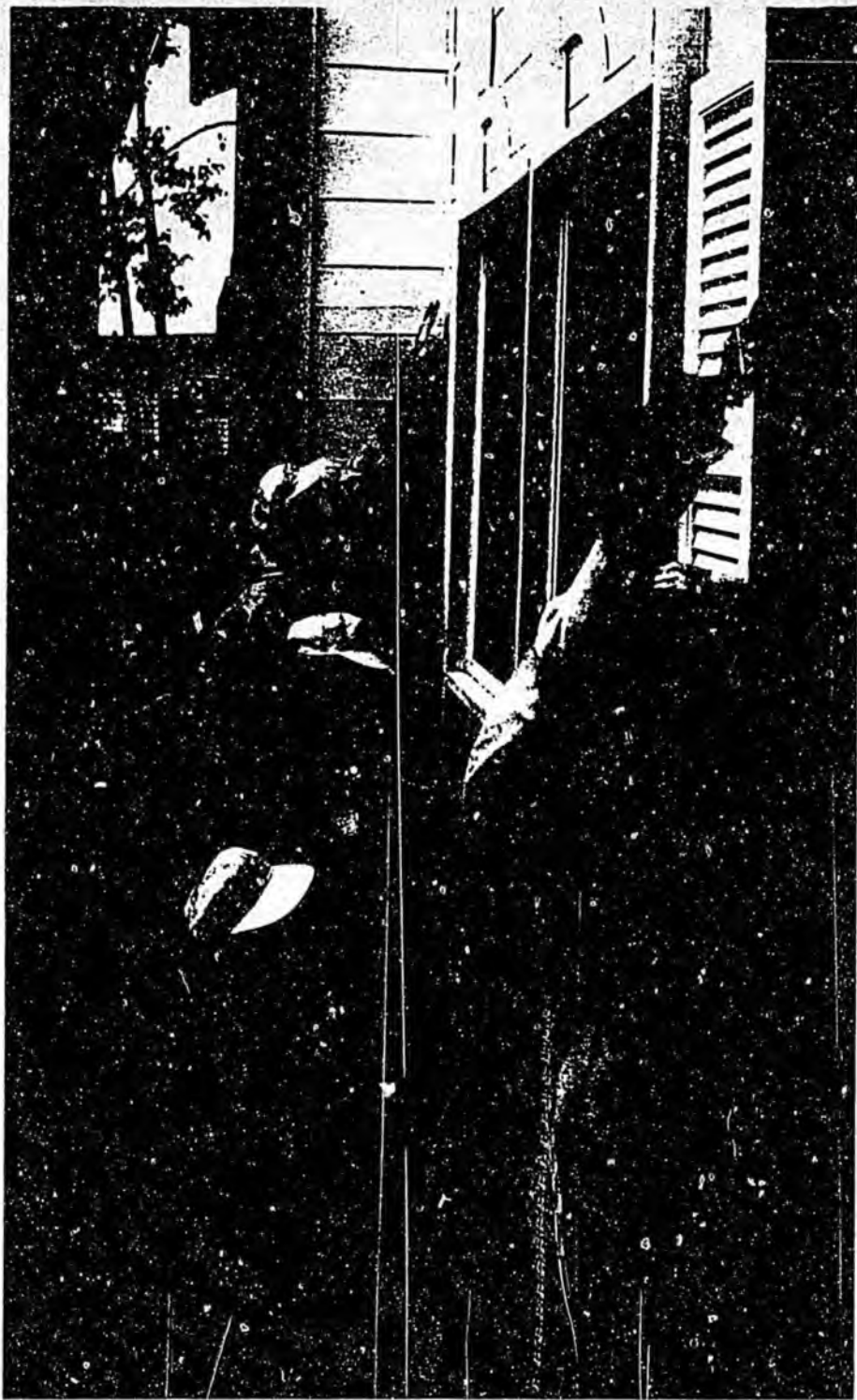
Candyce Hayes, Public Affairs
Spokesperson, Fred Meyer

"We at the Anchorage Times were proud to participate in Paint The Town which made such an outstanding contribution to the city. We were pleased with the entire project."

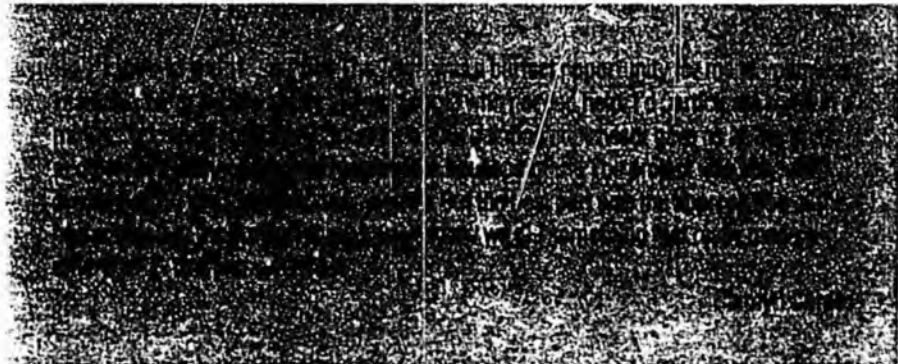
Elaine Atwood

"Paint The Town was one of the most worthwhile community endeavors Spenard Builders has ever participated in. We received a tremendous amount of positive feedback, but the most important part for us was seeing so many people benefit. It was a small investment for the amount of positive good in the community. We would like to see it continue."

Pat Anderson, Director of Marketing



**“At the end of the day, we
all knew we did something
that really made a differ-
ence in that person’s life.”**



B A L A N C E S H E E T

Anchorage Municipal
Housing Services
June 30, 1988
(with comparison to 1987)

Operating
Fund

Assets

Current Assets:

Cash	\$ 33,565
Short-term investments	1,282,277
Interest receivable	24,627
Grants receivable	
Inventory	5,500
Due from other funds	
Prepaid expenses	12,311
Construction work in progress— Phase II	143,080
New project development cost	
Current portion of loans receivable	
TOTAL CURRENT ASSETS	1,501,360

Loans Receivable, less current portion,
net of allowance for uncollectible
loans of \$66,000

Other Receivable

Equipment and Leasehold Improvements,
net of accumulated depreciation of
\$44,108 and \$28,996

99,845
\$1,601,205

Liabilities and Fund Balance

Current Liabilities:

Accounts payable	\$ 21,303
Due to other funds	506,505
Unapplied grants	893,772

TOTAL CURRENT LIABILITIES 1,421,580

Commitments

Fund Balance

179,625
\$1,601,205

Revolving Loan Fund	Commercial Projects Fund	Housing Rehabilitation Fund	June 30.	
			1988	1987
\$ 11.402	\$ 53	\$ —	\$ 45.020	\$ 20.349
1.404		23.000	1,282.277	1,084.225
474.190	109	32.206	26.031	10.775
			23.000	38.500
			5.500	7.875
			506.505	1,051.667
			12.311	8.936
			143.080	147.507
<u>57.753</u>			<u>57.753</u>	<u>55.000</u>
544.749	162	55.206	2,101.477	2,465.839
980.627			980.627	660.275
100.000			100.000	100.000
	102		<u>99.947</u>	<u>107.704</u>
<u>\$1,625,376</u>	<u>\$ 264</u>	<u>\$ 55,206</u>	<u>\$3,282,051</u>	<u>\$3,333,818</u>
\$ 13.537	\$ 264	\$ —	\$ 35,104	\$ 26,003
			506,505	1,051.667
			<u>893,772</u>	<u>406,132</u>
13.537	264		1,435,381	1,483,802
<u>1,611,839</u>		<u>55,206</u>	<u>1,846,670</u>	<u>1,850,016</u>
<u>\$1,625,376</u>	<u>\$ 264</u>	<u>\$ 55,206</u>	<u>\$3,282,051</u>	<u>\$3,333,818</u>

The Executive Committee provides a forum for new ideas, and frequent policy direction for the Corporation.

The Board is a thirteen-member body comprised of business people, residents of each target neighborhood, and government representatives. The Board has a five-person Executive Committee.



President

Barry Hulin is President, Chief Executive Officer and Chairman of the Board of First Federal Bank. He has been in the banking profession for twenty-five years, having

worked in London, San Francisco, Los Angeles and Seattle prior to his move to Alaska. He has served on the ANHS Board since October 1984.



Vice President

Tom Scott is the President and Executive Director of the Southern Region Emergency Medical Services Council. Having moved to Alaska in 1976, he has lived in

Nome and Juneau as well as Anchorage. He has served as President of the Turnagain Community Council, is the Chair of the Spenard ANHS Community Improvements Committee, is on the board of the Federation of Community Councils, the Tough Love organization, and is secretary of the Alaska EMS Association.



Secretary

Tyler Jones is the Assistant Port Director for the Municipality of Anchorage. He is a member of the Export Council of Alaska, an active member of the Government Hill Community Council, and the coordinator of the Ship Creek Waterfront Project, developing recreational and commercial boating facilities and extending the coastal trail. He is a founding member of the ANHS Board.



Treasurer

Donald Keil is the Deputy Regional Administrator for the Federal Aviation Authority. He moved to Alaska in 1954 to work with the FAA, and moved to Washington,

D.C. from 1970 to 1974 to serve in the office of the Secretary of the Treasury. He served on the Salvation Army Advisory Board, the Board of Challenge Alaska, Alaska Pacific University's Board of Trustees, and is a member of Rotary. He has served on the ANHS Board for three years.



Member At Large

Veronica Slajer is a marketing specialist with an emphasis on political campaigns. She currently works as staff for State Representative Dave Donley. She has served on the

ANHS Board since November 1987. A resident of Nunaka Valley, she serves on the Nunaka Valley Community Improvement and Planning Committee, the Residential Loan Committee and the Mutual Housing Advisory Committee.



Ex Officio Member At Large

Faye Connolly has been active in the Spenard community for 36 years. She currently serves as a member of the National Western Regional

Advisory Board to Neighborhood Reinvestment. She is a member of ANHS' Spenard Community Improvements and Planning Committee, the Residential Loan Committee and Mutual Housing Advisory Committee. She is involved in the Turnagain Community Council. She has been involved with ANHS since its inception and was a founding board member.

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

Low-Cost Capital through Secondary Market Leveraging

**A Report to the Senate Committee
on Banking, Housing and Urban Affairs**

**Pursuant to Report 99-314, 99th Congress, Second Session,
Title I, Subtitle C, Section 147**



Neighborhood Reinvestment Corporation

Neighborhood Reinvestment Corporation

Board of Directors

Federal Reserve System

Governor Martha R. Seger, *Chairman*

Comptroller of the Currency

Robert L. Clarke, *Vice Chairman*

Secretary of Housing and Urban Development

Samuel R. Pierce, Jr.

Chairman, Federal Home Loan Bank Board

M. Danny Wall

Chairman, Federal Deposit Insurance Corporation

Director C.C. Hope, Jr., *alt.*

Chairman, National Credit Union Administration

Board Member Elizabeth F. Burkhart, *alt.*

Wm. A. Whiteside

Executive Director

Neighborhood Reinvestment Corporation

Suite 800

1325 G Street, N. W.

Washington, D. C. 20005

NHS Secondary Market History

Almost immediately after the first three NHSs developed by the Neighborhood Reinvestment Corporation's predecessor organization began operations, their success in providing services to their neighborhoods brought them up against the barrier of limited revolving loan funds.

Before passage of the Community Development Act of 1974, foundations were the only source of NHS revolving loan funds. While the small revolving loan funds imposed a limitation, each NHS possessed a uniquely powerful ingredient for success: a governing board made up of a partnership² of unlikely partners — residents of a troubled neighborhood, and representatives of local financial institutions and the local government.

The partnership representatives were united by their shared commitment to success in upgrading a jointly selected declining neighborhood. They had committed to each other to do all they could to achieve their objectives. Neighborhood residents risked their limited resources and incurred debt to improve their homes, and risked their reputations by encouraging their neighbors do the same. Business leaders contributed management expertise and financial support to the program's operations, and made conventional loans that would have been turned down were it not for their NHS partnership commitment. The local government sensitized all its departments to the neighborhoods needs, with cooperation ranging from the assignment of housing inspection staff to help identify home repair needs to active participation by police, sanitation, planning and other departments in meeting neighborhood service needs — plus budgeting capital improvements such as sidewalk repairs, park installations, and lighting improvements.

Renewed confidence in the neighborhood could be expected to flow from such widespread commitments and it did. Hardship situations could be expected to emerge as the rehabilitation activity got underway and they did. As the financial limitations of the revolving loan funds created for hardship lending became an early reality, NHS boards were faced with a need to ration funds even before they could celebrate their success in turning a debilitating lack of confidence into a heavy demand for rehabilitation loans and technical assistance. Out of this combination of success and frustration, the NHS secondary market was born — conceived by NHS partners who wanted a reliable way to replenish their revolving loan funds.

The President of the Oakland, California, NHS was then a financial industry representative from Great Western Savings — Mr. Leslie N. Shaw. He captured the sentiment of all the partners when

he said that a business-like mechanism would have to be created to replenish NHS loan funds. His recommendations spurred development of an NHS loan purchase program, and Neighborhood Housing Services of America was incorporated to administer it. The Urban Reinvestment Task Force, Neighborhood Reinvestment's predecessor, responded with a grant⁴ enabling NHTSA to purchase NHS loans at par, loans which had been made to "unbankable" borrowers at terms based upon their ability to pay (terms which over the years have averaged about five and one-half to six percent interest and 12-year maturities). The availability of such resources to the NHS organizations unleashed program activity which had until then been held back by uncertainty. Requests to NHTSA to purchase loans quickly exceeded available resources.

With the help of the Ford Foundation's Louis Winnick and the Neighborhood Reinvestment Corporation, NHTSA began work to turn its loan purchase program into a true secondary market. The NHTSA board⁵ — made up of representatives of each of the NHS partners, including talented financial institution executives — worked closely with staff in designing the initial format, and key board members along with the Chairman of the Federal Home Loan Bank Board participated in pivotal meetings with Ford Foundation representatives. Mr. Winnick enlisted the participation of the Equitable Life Assurance Society of the U.S. as the first purchaser of NHTSA corporate notes, backed by the cash flow from NHS loans and other collateral. The Equitable's \$1 million purchase, closed in May 1978, liquified NHTSA's mortgage pool and allowed NHTSA to buy a further \$1 million in NHS loans.

This process initiated the next stage of development in the NHS secondary market program. The Chairman of the Federal Home Loan Bank Board and the President of the Federal Home Loan Mortgage Corporation became personally involved and assigned staff to join with Neighborhood Reinvestment and NHTSA in designing the current program.

The NHS secondary market functions as follows:

- An NHS offers to sell a portion of its loan portfolio to NHTSA under the conditions of a Loan Sale and Servicing Agreement, which provides that:
 - NHTSA buys the NHS loans at par (without discounting),
 - the servicing relationship between the borrower and the NHS remains with the NHS,
 - should a loan become 90-days delinquent, the NHS will buy it back or replace it with a similar loan, and
 - the NHS may sell NHTSA not more than 50% of its loan portfolio, so that it always has this replacement capacity.

- NHSA buys loans from an NHS utilizing capital it has received through grants and loans. After it has pooled a significant dollar volume in loans from a number of NHSs, NHSA is prepared to issue a corporate note backed by these NHS loans.

- A social investor agrees to buy NHSA's notes in accordance with the terms and conditions of a Master Note Purchase Agreement at an interest rate several points below market. The costs to NHSA of each social investment placement is the difference between the approximately 6% leverage rate on the NHS loans and the higher — yet below market — rate on the notes sold, plus operating expenses and required cash flow guarantee reserves. At a closing, the social investor receives the notes, NHSA receives cash (which it uses to buy further NHS loans, starting the cycle over again), and a trustee receives the pool of NHS loans which guarantees the notes, as well as the reserves.

- NHSs collect monthly payments on the loans they have sold, forward them to NHSA, and NHSA, in turn, forwards them to the trustee. The trustee makes quarterly payments on NHSA's obligations to the social investor from a combination of the monthly loan payments received and the reserve funds. The reserve funds serve a dual purpose, subsidizing the interest rate differential and serving as a cash flow guarantee fund to cover unanticipated shortfalls that could result from delinquent loans.

As the NHS partners and supporters observed the importance of the NHS secondary market program to the NHS network and its effectiveness, their personal and institutional commitments to it grew. New social investments flowed from this increased sense of commitment and significant corporate and foundation grants leveraged larger lending pools, enabling NHSs to reach a wider range of lower income lending needs, and to increase their lending by \$24 million, to date.

Personal executive leadership was again key to the successful expansion of NHSA's loan purchase capacity. The chief executives of Equitable, Prudential, AETna, Allstate and Metropolitan showed confidence in the NHS secondary market through significant new commitments from their companies and highly visible personal support. Federal Reserve Board Governor J. Charles Partee, Chairman of the Neighborhood Reinvestment Corporation, provided steady leadership enabling the Corporation's grants and loans to NHSA to expand its loan purchase capacity.

Active NHSA directors under respective Chairmanships of George W. Behymer and Edmund C. Sajor gathered expanded support for continued growth of the NHS secondary market,

ensuring continued liquidity of the NHS network as an important national resource for lower income neighborhoods.

Mr. Charles E. Lord accepted enlistment as founding chairman of a Board of Trustees⁶ to help NHSA's directors by guiding long-range resource planning and enlisting broader corporate participation. Senior Executive Trustee colleagues from Allstate Insurance Company, the Standard Oil Company, and the Bank of America gave enormous personal time developing strategies and enlisting support. They were joined by NHSA's finance chairman, Mr. Robert B. O'Brien, Jr., Chief Executive of Carteret Savings of Newark, and undertook a goal of bringing the NHSA loan purchase capacity to \$32 million while maintaining loan purchases at par, even though their rates were well below market.

Their work built on the pioneering creativity of NHS supporters which has been described, and the funding goal was in sight by early 1986. Formal agreements will bring the total purchase power to \$32 million by year end 1987. The mix of loans and grants which make this possible are as follows.

Long-term social investments: Prudential \$12.5 million, Metropolitan \$5 million, Aetna \$4 million, Allstate \$4 million, Equitable \$3 million, CIGNA \$2 million, Mutual Benefit Life \$1 million and Employers of Wausau \$500,000. Short-term, zero-interest loans: Bank America Foundation, \$1 million and the Metropolitan Life Foundation \$200 thousand.

Contributed funds: The Standard Oil Company, \$750,000, the Arco Foundation \$300,000 the Ford Foundation, \$200,000, the William Penn Foundation \$200,000, the Levi Strauss Foundation \$200,000, the Ahmanson Foundation \$100,000, and ongoing support from the Neighborhood Reinvestment Corporation, including a special Congressional appropriation in FY 1987 of \$1 million.

An additional \$261,750 from the Charles Stewart Mott Foundation, the Weyerhaeuser Company Foundation and the Allstate Foundation for staff and volunteer leadership development enhanced the capacity of NHS organizations to develop complimentary local resources to carry out the local objectives that were being assisted by an increased NHS secondary market capacity.

Each funding agreement represented a new stage of evolution in the growth and development of the NHS secondary market. With each new agreement the NHS network celebrates both the availability of needed funds and the continued belief in and support of their efforts. This belief in their work has encouraged the volunteers to reach continued new heights in meeting the needs of their communities.⁷

The "sticking points" in many neighborhoods' revitalization need much larger amounts of low-cost capital than has been available to date. The NHS partners are again tackling this need as a solid public-private partnership. Neighborhood Reinvestment and NHSA are again putting in front of NHS partners the needs and opportunities related to low-cost capital. Already, local groups are establishing objectives for the use of such funds if they can be developed. And already, a major NHS supporter, the Allstate Insurance Company has offered a pilot commitment of \$10 million to launch a local government secondary market program with the potential to recycle many more millions of dollars in CDBG loans for vital neighborhood revitalization purposes.

Progress Report on Local Government Secondary Market

In January 1987, Mr. Wayne E. Hediën, President of the Allstate Insurance Company, declared Allstate's willingness as an NHS partner to work with Neighborhood Reinvestment and NHSA to develop a local government secondary market pilot. Allstate is working with NHSA to develop the financial and legal vehicle for a purchase of \$10 million of NHSA notes backed by local government loans.

The loans will be purchased from local governments by NHSA with recourse; however, since there are no leverage funds to permit these loans to be purchased at or near par, over-collateralization will be required in order to produce a near market rate yield, as well as to cover administrative costs. Before approaching Allstate, NHSA had investigated the potential for creating a market-rate secondary market through existing mechanisms. Representatives from three separate major investment bankers were interviewed. All indicated that the small sizes of the transactions, which will need to average under \$500,000 in order to be responsive to small cities, and the low yields on the loans, along with other special supports the transactions would need, made the business unfeasible. In discussing the characteristics that would be necessary for the program to be responsive to the special needs of low-income neighborhoods, Allstate officials made it clear that the yields did not justify the investment of staff time that would be needed and that they would not pursue the activity but for their interest in NHS and the benefits that could be brought in the communities that would be served.

Local governments are allowing a portfolio analysis of their loan funds ahead of any formal commitments, to allow the legal details of the pilot to be tailored to their common needs. Dialogue and portfolio analyses are underway with fourteen local governments, representing \$67 million in loan funds, that will be considered for

participation in the \$10 million pilot. These dollar resources, the interest of local government representatives, and project goals which have been identified jointly by the local governments and NHS partners offer the potential for a solid pilot which will be representative of the common needs and opportunities which can be served by the local government secondary market program.

Long-Term Potential of the Local Government Secondary Market

The local government secondary market offers excellent long-term potential as a source of low-cost capital for NHSs, Mutual Housing Associations and other community development purposes. Existing or future portfolios of local government loans funded from CDBG or other sources could be recycled and the funding used again for similar purposes.

The proceeds would be program income under CDBG regulations, subject to reuse in accordance with CDBG regulations. Many local governments will welcome the opportunity to obtain funds immediately rather than waiting the 10 to 20 years for the loans to be paid in full, even if it means the dollars being discounted to their present value. Many others would find it attractive if the loans could be sold at or near par, as is the case in the NHS secondary market.

It requires approximately \$1.00 in leverage funds for each \$5.00 in loans purchased in the NHS secondary market. TO purchase local government loans at or near par is estimated to require as much as \$1.00 in leverage funds for each \$3.00 of loans purchased in light of three factors: a) the local government loans appear to have a lower average yield than NHS loans, b) the notes backed by the loan portfolio would have to produce a near market yield, and c) the leverage funds would have to cover administrative costs, rather than the administrative costs being covered by current Neighborhood Reinvestment Corporation grants.

Another factor is that of working capital. Currently NHSA utilizes a \$1 million Neighborhood Reinvestment Corporation loan and Neighborhood Reinvestment's grants to warehouse NHS loans until enough have been purchased to warrant a closing under a purchase agreement with an institutional investor. Little of this resource would be available for a local government secondary market. Many "small closings", i.e. under \$10 million, would be objectionable to the institutional investor, and one or more simultaneous closings, i.e. where the loans were closed with the local governments simultaneously with the notes being closed with the institutional investors, would be awkward and time consuming.

In order for such a secondary market to effectively recycle capital on an ongoing basis, both a working capital revolving fund and

annual leverage funds would be required. For instance, an appropriation of \$5 million to establish a working capital fund along with \$6.6 million in leverage funds would enable at least \$20 million in local government loans to be purchased, and thereby approximately \$20 million would be made available for neighborhood revitalization and other community development purposes. With the working capital fund in place, only \$6.6 million would be required to achieve the same results in later years.

Endnotes

- ¹ See Appendix A for description of Mutual Housing Associations.
- ² See Appendix B for description of Apartment Improvement Programs.
- ³ See Appendix C for description of Neighborhood Housing Services.
- ⁴ The Neighborhood Reinvestment Corporation Act, Public Law 95- 557 — October 31, 1978, recognized this role, providing in Section 606 (a)(4) that "The corporation shall continue the work of the Urban Reinvestment Task Force in supporting Neighborhood Housing Services of America, a nonprofit corporation established to provide services to local neighborhood housing services programs, with support which may include technical assistance and grants to expand its national loan purchase pool and may contract with it for services which it can perform more efficiently or effectively than the corporation."
- ⁵ See Appendix D for the Board of Directors listing.
- ⁶ See Appendix E for Board of Trustees listing.
- ⁷ See Appendix F for progress in homeownership opportunities for lower income households.