

LEGISLATIVE FINANCE-HOUSE / SENATE FINANCE COMM. FILES 8879

SB 427 cont.; SB 428

1988

686

277

1 Corporation [AND THE ALASKA STATE HOUSING AUTHORITY] shall adopt  
2 procedures to govern the procurement of supplies, services, profes-  
3 sional services, and construction by the corporation. The procedures  
4 must be substantially equivalent to the procedures prescribed in this  
5 chapter and in regulations adopted under this chapter.

6 \* Sec. 9. AS 36.30.015 is amended by adding a new subsection to read:

7 (f) The boards of directors of the Alaska Housing Finance Corpo-  
8 ration and the Alaska State Housing Authority shall adopt procedures  
9 to govern the procurement of supplies, services, professional ser-  
10 vices, and construction for the respective public corporations. The  
11 procedures must

12 (1) reflect competitive bidding principles and provide  
13 vendors reasonable and equitable opportunities to participate in the  
14 procurement process; and

15 (2) include procurement methods to meet emergency and  
16 extraordinary circumstances.

17 \* Sec. 10. AS 36.30.990(1) is amended to read:

18 (1) "agency"

19 (A) means a department, institution, board, commis-  
20 sion, division, authority, public corporation, the Alaska Pio-  
21 neers' Home, or other administrative unit of the executive branch  
22 of state government;

23 (B) does not include

24 (i) [, EXCEPT FOR] the University of Alaska;

25 (ii) [,] the Alaska State Housing Authority;

26 (iii) the [AND] Alaska Railroad Corporation;

27 (iv) the Alaska Housing Finance Corporation;

28 (v) [IT DOES NOT INCLUDE] a regional Native  
29 housing authority created under AS 18.55.996, or a regional

1 electrical authority created under AS 18.57.020:

2 \* Sec. 11. LOAN AMOUNTS ELIGIBLE FOR ASSISTANCE FOR LOANS ISSUED UNDER  
3 AS 18.56.098 DURING STATE FISCAL YEARS 1991 - 1993. For first and second  
4 mortgage loans purchased by the Alaska Housing Finance Corporation from the  
5 special mortgage loan purchase program and from qualified veterans' mort-  
6 gage bonds

7 (1) after June 30, 1990, and before July 1, 1991, the loan  
8 amount eligible for assistance under AS 18.56.098 is \$70,000;

9 (2) after June 30, 1991, and before July 1, 1992, the loan  
10 amount eligible for assistance under AS 18.56.093 is \$50,000;

11 (3) after June 30, 1992, and before July 1, 1993, the loan  
12 amount eligible for assistance under AS 18.56.098 is \$30,000.

13 \* Sec. 12. Of the two additional public members appointed by the gover-  
14 nor under AS 18.56.030(a), amended by sec. 1 of this Act, one member shall  
15 serve a term of two years and one shall serve a term of one year. When  
16 making the appointments, the governor shall specify the length of the term  
17 of each person appointed.

18 \* Sec. 13. Sections 2 and 4 of this Act take effect July 1, 1992.

19 \* Sec. 14. Except for secs. 2 and 4 of this Act, this Act takes effect  
20 July 1, 1990.

amended By Chenoweth  
A M E N D M E N T I

adopted  
5-4

OFFERED IN THE HOUSE

BY REP. BARNES

TO: CSSB 427 (Rules) am

Page 7, line 1, after "Corporation"

Delete "[THE ALASKA RAILROAD CORPORATION]"

Insert ", the Alaska Railroad Corporation,"

Page 7, lines 12 - 29:

Delete all material.

Renumber the following bill sections accordingly.

3/16/90

Adopted by SFC

CSSB 427 (Finance)

LETTER OF INTENT

In changing the provisions of AS 36.30.015(e), it is the intent of the Senate Finance Committee to allow the Alaska Railroad Corporation, the Alaska Housing Finance Corporation and the Alaska State Housing Authority to adopt procurement regulations which will allow each corporation to operate within their respective markets in a cost-effective manner while at the same time ensuring a public and competitive bidding process. It is not the intent of the Senate Finance Committee that these regulations be the same as or "substantially equivalent" to the State Procurement Code.

It is also the intent of the Senate Finance Committee that the Alaska Housing Finance Corporation present interim changes to its annual operating budget to the Legislative Budget & Audit Committee as a matter of information notwithstanding AHFC's budget authority to expend funds provided in the front section of the General Appropriations Act.

Adopted 4/3

REPRESENTATIVE  
C.E. "SWACK" SWACKHAMMER

# Alaska State Legislature



## House of Representatives

SOLDOTNA  
312 TYEE STREET  
SOLDOTNA, ALASKA 99669  
(907) 262-7841

JUNEAU  
BOX V  
JUNEAU, ALASKA 99811  
(907) 465-2889

### M E M O R A N D U M

TO: HB 462 House Finance Subcommittee  
FROM: Rep. C.E. Swackhammer  
DATE: April 10, 1990  
TOPIC: SB427/HB462 Comparison

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CSSB 427 (Rules) has been transmitted to the House. The following is a comparison of this bill with CSHB 462 (C&RA).

#### BILL TITLE:

The title of CSSB427 has been changed to allow changes to be made to the procurement procedures of the Alaska Railroad Corporation and does not exclude AHFC from the Executive Budget Act.

#### MEMBERSHIP, BOARD OF DIRECTORS - AHFC

Both bills change the public membership of the board from two to four members. CSSB 427 specifically spells out that the membership will be "one of whom shall be a representative of the financial community and one of whom shall be a person licensed as a real estate broker under AS 98.88.171(a)."

There is a consensus of the House subcommittee regarding this difference.

#### RACHET DOWN OF SUBSIDY:

No difference.

#### LOW/MODERATE INCOME SUBSIDY:

No difference.

#### PROCUREMENT PROCEDURES:

Both exclude AHFC from the procurement procedures.

CSSB 427 includes the following language for the applicable corporations to add that procedures must:

1. Reflect competitive bidding principles and provide vendors reasonable and equitable opportunities to participate in the procurement process;

2. Include procurement methods to meet emergency and extraordinary circumstances.

Also included in the procurement procedures is a special subsection which addresses the Alaska Railroad Corporation specifically. It reads as follows.

AS 36.30.015 (f)

The board of directors of the Alaska Railroad Corporation shall adopt procedures to govern the procurement of supplies, services, professional services, and construction. The procedures must

(1)&(2) Same as top of page;

(3) for a contract awarded for supplies, services, and construction, comply with the provisions of AS 36.30.170(b) and 36.30.250(b) that establish a preference for an Alaskan bidder, except that the Alaska bidder preference provisions of AS 36.30.170(b) and 36.30.250(b) do not apply to a contract that actually and directly relates to the purchase, operation, expansion, reduction, or maintenance of track structure or equipment moving upon track structure of the railroad.

EXECUTIVE BUDGET ACT:

CSHB 462 excludes AHFC from the act, CSSB 427 does not.

Please note the attached legal opinion which addresses AHFC program receipts in the budget bill. Briefly, it states in the front page language that:

"...all unrestricted receipts that the corporation receives during the fiscal year..." is appropriated to the Alaska housing finance revolving fund.

In 1988 language was included that the corporation comply with AS 37.70.080(h). Basically sub-paragraph (h) states:

Expenditure of program receipts not specifically appropriated by the full legislature must first have the governor submit an RP to LB&A for review; 45 days must elapse before expenditure commences, unless prior approval by LB&A, and, should LB&A recommend the expenditure not occur, the governor shall again review the RP and if the governor decides to authorize the expenditure, the governor shall provide LB&A with a statement of the reasons before commencement of expenditures.

STATE OF ALASKA  
THE LEGISLATURE  
LEGISLATIVE AFFAIRS AGENCY


POUCH V STATE CAPITOL  
JUNEAU ALASKA 99811  
907 465 3800

MEMORANDUM

April 2, 1990

SUBJECT: AHFC Program Receipts (CSSB 427(Rules))

TO: Senator Pat Rodey  
Attn: Max Gifford

FROM: David R. Dierdorff   
Revisor of Statutes

You have asked for a brief explanation of the treatment of AHFC program receipts in the budget bill.

For the last five fiscal years, the Act providing for the general operating and loan program budget of state government has included "front pages" language appropriating all unrestricted receipts that the corporation receives during the fiscal year to the Alaska housing finance revolving fund. See, sec. 15, ch. 98, SLA 1985; sec. 14, ch. 129, SLA 1986; sec. 14, ch. 95, SLA 1987; sec. 14, ch. 154, SLA 1988; and sec. 14, ch. 116, SLA 1989. I note that the language each year has been identical, except that in 1988 a subsection (b) was added requiring the corporation to comply with AS 37.07.080(h) prior to expending any of the program receipts for a purpose not described in the corporation's operating plan under AS 37.07.080(b). I note also that the language appears in the governor's operating and loan program bill for FY 91. See sec. 15, HB 500.

There is no question but that the boiler plate language found in these budget Acts appropriates everything AHFC receives during the year.

DRD:pl  
WKP4/011

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU ALASKA 99811  
907 465 3850

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 30, 1990

SUBJECT: Mortgage interest subsidy adjustment made by  
secs. 2 - 7 and 11 of CSSB 427 (Rules) --  
sectional analysis

TO: Senator Rick Uehling, Co-Chair  
Senate Finance Committee

FROM: Jack Chenoweth  
Legislative Counsel

As has been noted, the significant provisions of CSSB 427 (Rules), sections 2 - 7 and 11, re-orient the interest subsidy on AHFC's major mortgage loan program. This memo provides more detailed information as to how that adjustment is accomplished.

AHFC's leading mortgage assistance program is its special mortgage loan purchase program established in AS 18.56.098. Under current law, AHFC is authorized to subsidize interest on the first \$90,000 of a borrower's mortgage loan. See AS 18.56.098(g).

This bill phases out the subsidy by stair-stepping down over a three-year period the mortgage interest subsidy that may be provided under the current special mortgage loan program:

-- for loans made in FY '91, the authorized subsidy threshold is set at the first \$70,000 of a mortgage loan;

-- for those made in FY '92, the authorized subsidy threshold is set at the first \$50,000 of a mortgage loan;

-- for mortgage loans made during FY '93, the authorized subsidy threshold is set at \$30,000.

After June 30, 1993 (i.e. the last day of FY 1993), no further interest subsidy is authorized under this loan program.

Senator Rick Uehling  
Page 2  
March 30, 1990

However, AHFC officials indicated that they wanted to retain the authority to provide a subsidy to certain low- and moderate-income borrowers. This is accomplished by amending another AHFC program, known as the "home ownership assistance program" established in AS 18.56.091 for persons of low and moderate income. That program is amended, effective July 1, 1992, to permit provision of subsidized interest payments on the first \$50,000 of a mortgage loan approved by AHFC under its home ownership assistance program loan.

The definition of "persons of lower and moderate income" appears in AS 18.56.900(11). The definition makes reference to various factors that AHFC must consider, but does not prescribe a definition solely with reference to a set amount of the borrower's income.

Finally, I would note that, at the sponsor's request, this legislation is drafted in a way that, should the legislature ever want to re-establish subsidized interest payments for mortgages provided under AHFC's special mortgage loan program, it may very easily do so.

\*

The particular bill sections, bill sections 2 - 7 and 11, do the following:

Bill sections 3, 5, 6, 7, and 11 make changes to AHFC's "special mortgage loan program."

In addition to a couple of technical and drafting changes (relating to U.S. tax code references), the principal changes made by bill sections 5, 6, and 7 delete, in various places, a reference to the existing \$90,000 threshold for interest subsidies authorized under AHFC's special mortgage loan program and substitute in place the term "loan amount eligible for assistance."

"Loan amount eligible for assistance" is defined in bill section 3 to be an amount as determined by law (or, if no amount is set by law, then the amount is deemed to be zero).

The actual amount of a "loan amount eligible for assistance" is set by law in bill section 11. This is a temporary law provision. As noted, the loan threshold declines from the current \$90,000 and is, for loans made

Senator Rick Uehling  
Page 3  
March 30, 1990

- during FY 91, \$70,000;
- during FY 92, \$50,000;
- during FY 93, \$30,000.

After June 30, 1993 (i.e. beginning July 1, 1993, or the start of FY 94), there would be no rate set or determined by law, hence, under the definition of the phrase "loan amount eligible for assistance," the threshold rate is deemed to be zero, and no part of the interest on a mortgage loan made under the special mortgage loan program may be subsidized.

Under this approach, the legislature may readily re-establish subsidized interest rates on these mortgage loans merely by enacting an uncodified law that re-states the threshold rate.

Bill sections 2 and 4 amend the other AHFC loan program mentioned, the "home ownership assistance program" of AS 18.56.091, established for persons of lower and moderate income. Under bill section 2, an interest subsidy is authorized based on the threshold established by law. Bill section 4 (page 3, lines 18, 19, and 20) sets that threshold for persons whose purchase of a home is assisted under AS 18.56.091 at \$50,000.

Bill sections 2 and 4 take effect July 1, 1992, that is, on the date when, under the existing subsidy program, the interest rate subsidy threshold is due to drop from \$50,000 to \$30,000. In other words, for persons of lower and moderate income, the threshold at which interest rates on new mortgage loans may be subsidized will not fall below \$50,000.

JBC:lmb  
L10/042

A M E N D M E N T

OFFERED IN THE HOUSE

BY REP. RIEGER

TO: CSSB 427(Rules) am

Page 6, following line 27:

Insert new bill sections to read:

\*\* Sec. 8. AS 18.56.110 is amended by adding a new subsection to read:

(h) In any resolution of the corporation authorizing or relating to the issuance of bonds or bond anticipation notes, the corporation's covenants and contracts with the holders of the bonds or notes must incorporate reference to transfer of a portion of the corporation's net income under AS 18.56.195.

\* Sec. 9. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.195. DETERMINATION AND TRANSFER OF NET INCOME. (a) Annually, not later than December 1 after the close of the state fiscal year, the board shall determine the net income earned on assets of the corporation under AS 18.56.089.

(b) Except as provided in (c) of this section, annually, not later than December 31 after the close of the state fiscal year, the board shall transfer not less than 50 percent of the corporation's unrestricted net income to the state general fund. The board shall determine the amount of the transfer by resolution.

(c) The board may transfer less than the amount required by (b) of this section or may determine to make no transfer if the board determines that a reduced transfer or no transfer is necessary to

maintain the financial integrity of the corporation.

(d) A transfer made under this section is subject to existing bond covenants of the corporation."

Renumber the following bill sections accordingly.

Page 9, following line 1:

Insert a new bill section to read:

"\* Sec. 15. It is the purpose of secs. 8 and 9 of this Act to provide a mechanism for the regular transfer as a dividend of a portion of the net income of the Alaska Housing Finance Corporation to the state treasury without diminishment of equity maintenance covenants and agreements set out in the obligations of the corporation that support its borrowings."

Renumber the following bill section accordingly.

Page 9, following line 2:

Insert a new bill section to read:

"\* Sec. 17. Sections 8, 9, and 15 of this Act take effect immediately under AS 01.10.070(c)."

Page 9, lines 3 and 4:

Delete all material and insert:

"\* Sec. 18. Except for secs. 2, 4, 8, 9, and 15, this Act takes effect July 1, 1990."

CHRONOLOGY OF HB 462

TASK FORCE FORMED UNDER CS FOR SENATE CONCURRENT RESOLUTION #26  
RECOMMENDATION FOR A CONSULTANT TO LOOK AT AHFC IN AUGUST, 1989.  
BASIS FOR CONSULTANT STUDY

PRESENT FINANCIAL STATUS  
AFFECT OF CHANGING SUBSIDY  
CONDITION OF ALASKA HOUSING MARKET  
RETURNING AHFC TO ORIGINAL LOW/MOD INCOME INTENT  
PRIVATIZATION OF AHFC  
IDEALIZED AHFC

OCT. 20, 1989, ERNST AND YOUNG SUBMITTED THE SUCCESSFUL BID OF  
\$214,285 FOR WHAT BECAME A 42 WORKING DAY REPORT

THEIR RECOMMENDATIONS

REMOVE AHFC FROM EXECUTIVE BUDGET ACT  
REMOVE AHFC FROM PROCUREMENT CODE  
RETURN AHFC TO ORIGINAL INTENT, BUT RETAIN AHFC AS "BACK-STOP"  
ELIMINATE THE SUBSIDY BECAUSE OF A "RARE WINDOW OF OPPORTUNITY"  
PROVIDE WITH PRIVATE COUNSEL  
EVENTUAL DIVIDEND

COMPANION BILLS WERE INTRODUCED HB462/SB427

THE FOLLOWING POINTS COVERED IN ORIGINAL BILL  
RATCHET DOWN LOAN SUBSIDY FROM 90,000-TO-70-TO-50-TO-30-ZERO  
REMOVE AHFC FROM PROCUREMENT CODE  
REMOVE AHFC FROM EXECUTIVE BUDGET ACT  
ELIMINATE HOP  
AT 50,000 SUBSIDY LEVEL REINSTATE LOW/MOD INCOME SUBSIDY LEVEL

COMMUNITY & REGIONAL AFFAIRS AMENDMENT

CHANGE PUBLIC MEMBERSHIP ON BOARD FROM TWO TO FOUR MEMBERS

FINANCE COMMITTEE AMENDMENTS

OF FOUR PUBLIC MEMBERS, ONE FROM FINANCE COMMUNITY AND ONE FROM  
THE ALASKA ASSOCIATION OF REALTORS  
RETURN AHFC TO EXECUTIVE BUDGET ACT  
DIVIDEND POLICY  
HONOR PRE-EXISTING CONTRACTS  
AUTHORIZE PRIVATE COUNSEL  
REPEAL HOP

SUBCOMMITTEE CONSENSUS

OF FOUR PUBLIC MEMBERS, ONE FROM FINANCE COMMUNITY AND ONE A  
REAL ESTATE BROKER, LICENSED IN THE STATE OF ALASKA  
REMOVE AHFC FROM EXECUTIVE BUDGET ACT BUT ANNUAL AUDIT MUST  
ADDRESS ALL CHANGES IN PERSONAL SERVICES WITHIN THE  
CORPORATION

DIVIDEND POLICY WITH MORATORIUM ON EFFECTIVE DATE UNTIL LOAN  
SUBSIDY LEVEL REDUCTION IS COMPLETE.

REPEAL PRIVATE COUNSEL AMENDMENT, A.G. WILL PLACE CIVIL  
ATTORNEYS IN CORPORATION AND ALLOW A SPECIALIZED ATTORNEY TO  
BE KEPT ON RETAINER



Lynn M. Manley  
First Vice President

**Security Pacific Bank**  
**Washington, NA**  
Corporate Banking: T23-3  
Security Pacific Tower, Box 3966  
Seattle, Washington 98124  
(206) 621-4216

April 17, 1990

House Finance Committee  
House of Representatives  
Alaska State Legislature  
Juneau, Alaska 99801

Re: Amendment to CSSB 427 (Rules)

Gentlemen and Ladies:

Tom Behan, Executive Director of Alaska Housing Finance Corporation, has asked me to comment on the effect, if any, the proposed amendment offered by Representative Rieger would have on the financial health of AHFC.

By way of background, this bank, both formerly as Rainier Bank and now as part of Security Pacific Corporation, has had a relationship with AHFC since 1982. We have acted as financial advisor to AHFC in the private placement of three corporate bonds amounting to \$65 million in the aggregate, and we have made available to AHFC credit in various forms in amounts in excess of \$26 million. AHFC is currently obligated to Security Pacific Bank Washington (SPBW) on a contingent basis for \$15.8 million, representing the balance on a standby letter of credit supporting the first of the previously-mentioned corporate bonds.

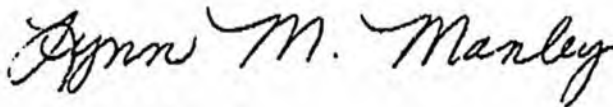
Alaska Housing's financial structure is highly complex. To generalize somewhat, while most of its bond issues are structured as "stand alone" financings (with income from pledged assets sufficient to repay the debt), all issues carry the full faith and credit of the Corporation. If there is an occurrence in which the cash flow from assets committed to a bond issue is insufficient to repay the bond, lenders can rely on the consolidated net income of the Corporation to provide for repayment of interest and principal. To the extent that income is perceived as being sufficient (with ample margin) to repay all current and contemplated obligations, the risk of loss is relatively low, and most lenders would be inclined to extend larger amounts of credit at a lower price. If the Corporation's income is reduced for any reason, the amount of available credit would very likely be restricted and/or the price increased. In my opinion, one probable result of mandating a decrease in net income would be tighter structuring of each individual bond issue--that is, requiring commitment of more cash and/or collateral as security for a specific bond issue.

Page 2

There are many other possible ramifications of a planned reduction of AHFC's net income. Unfortunately, it is difficult to assess on short notice what would be the actual effect on the capital markets of the proposed legislative amendment. I forward these brief comments to you in the interest of meeting your deadline and supplying you with at least one opinion from a lender actively engaged in supplying credit to AHFC.

I am pleased to have the opportunity of offering this testimony to the House Finance Committee on behalf of Alaska Housing Finance Corporation. Should anyone desire elaboration on any point included in this letter, please feel free to contact me.

Sincerely,

 (LH)

Lynn M. Manley  
First Vice President

LMM/lh

cc: Mr. Tom Behan



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## FORTUNE PROPERTIES, INC.

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3000 A Street, Suite 101 • Anchorage, Alaska 99503 • (907) 562-SOLD (7653)

April 16, 1990

Members  
House Finance Committee  
State House  
Juneau, Alaska

Ladies and Gentlemen:

On April 17, 1990 you will be considering a bill which will adversely affect the stability of the Alaska Housing Finance Corporation. Please consider carefully the detrimental role a dividend will create for AHFC.

The Anchorage and Alaska real estate market is just in the beginning stages of its recovery. The stability of AHFC is critical to its continued recovery. A dividend at this time can and will be interpreted in a negative way from the bond markets.

I encourage not to enact any legislation which will create a dividend at this time.

Best regards,

A handwritten signature in cursive script, appearing to read 'Connie Yoshimura', with a horizontal line extending to the right from the end of the signature.

Connie Yoshimura

ALASKA ASSOCIATION OF REALTORS  
P O S I T I O N   P A P E R  
SB427/HB426  
\*\*\*\*\* PROPOSED AMENDEMENT \*\*\*\*\*  
April 17th, 1990

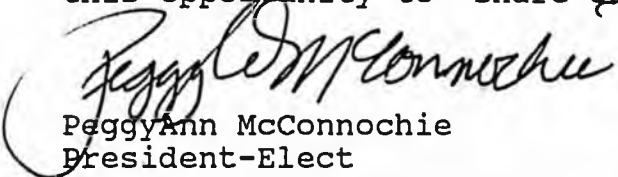
The Alaska Association of Realtors would like to formally oppose this Amendment which would require the Alaska Housing Finance Corporation to pay an annual dividend to the State of Alaska's general fund of not less than 50% of the Corporation's unrestricted net income. We concur with AHFC who also opposes this Amendment.

AAR opposes this Amendment for the following reasons:

1. We believe that this type of transfer of income jeopardizes the Corporation's short and long term borrowing capacities in a manner that cannot be mitigated.
2. We believe that this Amendment severely inhibits AHFC's ability to renew its pledge to assist low and moderate income families purchase homes, and non-profit housing groups obtain housing for special need populations.
3. The Legislature's own report clearly states that AHFC should receive less interference by the state government in running the business of AHFC and they also stated that it would be unwise to attempt to extract assets from the Corporation for non-housing purposes.

We believe that this type of Amendment obscures the separation of AHFC, an independent public corporation responsible for its own assets, by putting the Legislature in first position with discretion over the use of the Corporation's earnings. Rather, the Alaska Association of Realtors support the concept of entrusting AHFC's Board of Directors with reviewing each year the financial position of the Corporation, what bonding level they will maintain during the coming year, and then what dividend might be appropriate.

On behalf of the Alaska Association of Realtors, I thank you for this opportunity to share our concerns and our opinions.

  
PeggyAnn McConnochie  
President-Elect  
ALASKA ASSOCIATION OF REALTORS  
cc: AAR

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

**STATE OF ALASKA  
LEGISLATURE**

**HOUSING FINANCE  
TASK FORCE**

**Evaluation of Policy Options  
Concerning the Future of the  
Alaska Housing Finance  
Corporation**

January 12, 1990

**Ernst & Young**

## EXECUTIVE SUMMARY

The State of Alaska Legislature established the Housing Finance Task Force in 1989 to review and recommend changes in publicly-assisted residential finance programs, including those loan programs managed by the Alaska Housing Finance Corporation (AHFC). This study was commissioned to provide information regarding potential changes in AHFC programs, and included addressing the following concerns of the Task Force:

- Availability of a return on the State's \$1 billion investment in AHFC, without impairing AHFC's financial condition
- Affect on AHFC's financial standing from a change in the subsidy policy
- Impact on AHFC's financial position and on the State's housing market, due to changes in the AHFC subsidy and/or a return of AHFC to its original legislative intent
- Feasibility of "privatizing" AHFC.

The results of our analysis are summarized in following subsections of this Executive Summary:

- *AHFC Present Activities*
- *AHFC Financial Position and Availability of Funds*
- *Policy Option to Change AHFC Subsidy*
- *Policy Option to Return AHFC to Original Legislative Intent*
- *Policy Option to Change Ownership of AHFC*
- *Conceptualization of an Idealized AHFC.*

### A. AHFC PRESENT ACTIVITIES

The Legislature created AHFC in 1971 to provide housing for low-income Alaskans. Since that time, the Legislature has progressively expanded AHFC's role, where the Corporation now provides financing for the varying housing needs of all

qualified Alaskan homebuyers. AHFC's core activities are selling bonds and purchasing home loans originated by Alaskan lending institutions.

During fiscal year 1988/89, AHFC purchased 2,740 new loans. One half of these new loans were purchased under the tax-exempt, first-time homebuyers program. In addition to purchases of new loans, AHFC also refinanced 6,316 existing AHFC loans in the same fiscal year. In total, AHFC purchased approximately 9,000 loans totalling almost \$900 million.

Over the past five years AHFC's purchases of new loans have dramatically declined while refinancings have significantly increased. In total, AHFC loan purchase activity has increased slightly in the past five years.

## **B. AHFC FINANCIAL POSITION AND AVAILABILITY OF FUNDS**

In June of 1980, legislation was passed which allowed the State to subsidize interest rates on mortgage loans purchased by AHFC. In connection with the legislation, the State contributed monies to AHFC to provide for the overcollateralization of these loans so that qualified residents could obtain interest rates on mortgages below market rates.

Through fiscal year 1983/84, just over \$1 billion was contributed by the State to AHFC. Of this amount, \$808 million was contributed for the overcollateralization purposes described above. The remaining \$225 million was provided for various other specifically identified purposes. The Corporation has not required a direct State capital infusion since 1984.

The Corporation's ability to operate as a going concern depends on both its liquidity and solvency. The concept of liquidity includes AHFC's ability to meet necessary cash flow payments. Currently, the Corporation is experiencing liquidity problems as reflected in the most recent year's net loss of income. The concept of solvency includes AHFC's equity strength and general credit worthiness. The financial community still generally views the Corporation as financially stable because of the solvency of its balance sheet.

However, further extraction of Corporation assets, in any form, may have a serious impact on Corporate financial health.

Under the current AHFC practice of using general obligation financing, if funds were appropriated from the Corporation, a precedent would be set and the bond programs would likely be less solvent and credit worthy. Additionally, if funds were withdrawn, the State could conceivably run the risk of being held responsible for any resultant future losses in the bond programs.

AHFC had retained earnings of over \$300 million as of June 30, 1989. However, these cumulative earnings were principally a result of interest earned on State contributions, and that without prior State contributions the Corporation would reflect a deficit to-date.

As of June 30, 1989, AHFC had \$519 million of net Corporate assets not pledged as collateral for specific bond indentures. The \$519 million equity balance is only as strong as the Corporation's assets. Based upon our review, it appears that a fairly significant portion of these assets may not be liquid, if collectible or realizable at all. In addition, a significant portion of the mortgage loans maintained in the Corporate Operating and General accounts were either already pooled, or scheduled for pooling, to be subsequently pledged to a bond issue. Although these receivable balances (pooled loans) represent valid and collectible assets, the principal intent is to place these balances into a bond issue. Finally, AHFC's short-term borrowing agreements require minimum equity balances be maintained, which AHFC has met.

Therefore, after deducting from the \$519 million equity balance those assets considered non-liquid, and adjusting for current borrowing arrangements, we estimated AHFC had only \$10 million in unrestricted net liquid assets as of June 30, 1989. Virtually all of AHFC's \$519 million equity balance is thus restricted.

### **C. POLICY OPTION TO CHANGE AHFC SUBSIDY**

For virtually all AHFC loan programs, a subsidy is provided to the borrower if the cost of AHFC's funds used to purchase a loan is greater than ten percent (nine percent to veterans). By law, this subsidy cannot exceed three percent. With the current level of

market interest rates, there is no subsidy on tax-exempt programs, an approximate 0.75 percent subsidy on the taxable program, and an estimated two percent subsidy on the Home Owners' Assistance Program.

We believe the subsidy program is presently not desirable because it presents a major drain on increasingly scarce AHFC assets and it prevents the re-entry of outside capital into the Alaska market. The cessation of the subsidy will not only make possible some long-term future return on prior State appropriations, it also will provide a great stride towards long-term fiscal responsibility for the Corporation.

Furthermore, a unique window of opportunity exists now to eliminate the subsidy because AHFC's cost of funds is generally below the ten percent threshold rates (although some slight subsidy is in effect for the taxable program), demand for mortgages is low as compared to the last couple of years, the price of housing appears to be at or near the bottom, and market interest rates are expected to remain stable in the short-term.

However, we wish to emphasize that elimination of the subsidy as of a set date (June 30, 1990) is only appropriate under the conditions noted above. A significant time delay in implementation could result in changed market and economic circumstances. Therefore, as a possible backstop, a ratchet mechanism may be wise to consider. That is, eliminate the subsidy through revised legislation as of a set date (again June 30, 1990 seems to be appropriate), but provide for the ability to extend this date if conditions are not actually favorable at that time.

We addressed the impact of changing the subsidy as to its effect on the housing market, AHFC, and the State (appropriated funds). Below is a summary of what we determined to be the impacts:

*Market:* We addressed the impact to the housing market under three separate circumstances, and determined that only in a worse case scenario (interest rates increasing significantly during the transition period) would any negative effects likely to occur. In this event, some form of ratcheting (such as extending the effective date of eliminating the subsidy until conditions were more favorable or phasing-out the subsidy over time)

would eliminate this problem. However, based on projected interest rates, we do not currently believe this to be the likely scenario.

**AHFC:** Either the elimination or phase-out of the interest rate subsidy will provide for a financially stronger Corporation and no negative effects to Corporation bond or loan covenants, or bond ratings from credit agencies. Without the interest rate subsidy for the taxable programs, the Corporation will lose much of its competitive market advantages over the private sector. In the long-term, this could lead to a healthier competitive capital market environment.

Without any future changes to the subsidy, and no further State capital injections, we have projected that the Corporation will have a major decrease in its unrestricted net liquid assets over the next five-year period. Because of the immaterial amount of total unrestricted net liquid assets available as of June 30, 1989 (only \$10 million), any substantial decrease in unrestricted assets will have the following two important negative impacts on the Corporation's short-term borrowing arrangements:

- If minimum unrestricted net liquid asset balances are not maintained, the Corporation may be in a default position on its working capital debt
- If net losses resulting from bond programs continue in the future, the critical short-term Corporation borrowing arrangements necessary for day-to-day operations may be severely jeopardized.

**State Appropriations:** Because elimination of the subsidy will provide for a more financially solvent AHFC, this may be one of the few ways for the State to ever receive a return on their substantial contributed capital. This is assuming the AHFC has to reach at least break-even operations in order to be able to return a dividend from operations to the State.

The net effect over a five-year period of eliminating the subsidy may range from \$43 million to \$91 million, depending on market conditions. In summary, elimination of the subsidy will reduce costs, either to the State or to the Corporation, by these substantial amounts.

**D. POLICY OPTION TO RETURN AHFC  
TO ORIGINAL LEGISLATIVE INTENT**

The original legislative intent was for AHFC to provide housing for low- to moderate-income individuals. Based on this interpretation of intent, we made a determination that the taxable program and the second mortgage program did not meet original legislative intent. Because the magnitude of the second mortgage program is negligible, we then estimated the impact of phasing-out the taxable program on Alaska's housing market and on the financial position of AHFC and the State.

The effect of phasing-out the taxable program on AHFC's financial position is measured by the change in unrestricted net liquid assets. The potential change in these assets arises from two sources:

- First, to the extent that loans under the taxable program are subsidized, terminating this program means that further subsidies are unnecessary and these assets, therefore, should increase
- Second, because bond issues supporting the program are overcollateralized as a credit enhancement measure, terminating this program frees up assets which would otherwise be pledged as collateral.

The additive effect (over and above elimination of the subsidy) of eliminating the taxable program as of June 30, 1990, would be to reduce by \$45 million the level of unrestricted net liquid assets otherwise required over the five-year period of fiscal years 1990 through 1994.

Due to the generally perceived role of AHFC, its long-term institutional relationships with other secondary market purchasers, and the continuing importance of the taxable program to the Corporation's REO sales, any phase-out of the program should proceed carefully and take place over an extended period of time. A careful implementation of the phase-out will avoid market disruption because if any disruption does become evident, mechanisms will then be in place to slow the phase-out and stabilize the situation.

In summary, AHFC programs supported by taxable bonds compete directly with private sector sources of financing. The AHFC, in absence of the subsidy, adds no unique value to these taxable mortgage programs, over and above the private sector. In addition, AHFC is not serving primarily low- to moderate-income persons with its taxable programs. However, it should be clarified that even though AHFC programs supported by taxable bonds appear to be presently expendable, we are not suggesting that this occur. These taxable programs must remain accessible to AHFC, but only on an "as needed" basis.

### **E. POLICY OPTION TO CHANGE OWNERSHIP OF AHFC**

The legislature requested an evaluation of the potential for "privatizing" all or a portion of AHFC. Typically, privatization has been an arrangement in which the private sector supplies goods, facilities, and services that have been traditionally provided by the public sector. However, in the case of the Housing Finance Task Force request, this policy option actually extends to selling all, or a portion, of the Corporation's assets and related liabilities to a third party.

The sale of AHFC assets is probably not feasible for several reasons:

- There is little or no interest in the purchase
- The price paid could be far below State investment in AHFC
- Legal problems may exist with respect to the Alaska constitution and various bond covenants.

However, contracting out of the REO disposition process may be a viable option, and could offer cost-savings to AHFC. The REO functions performed are commercially available, non-governmental in nature, somewhat routine, and easily defined in terms of workload. A private firm(s) could avoid many government restrictions which presently hamper the AHFC REO disposition process, such as civil service requirements, procurement restrictions, and difficulty in authorizing needed additional staff positions. Competitive bidding for providing the services could lower the cost of disposing of REO properties. If AHFC used the private sector, rather than its own employees, to deliver the REO service, it would not have to give up its responsibility to provide the service.

## F. CONCEPTUALIZATION OF AN IDEALIZED AHFC

We recommend the Legislature consider a new formal mandate for AHFC in order to redefine its role in the years ahead. We believe that the role of AHFC, as described below, makes good public policy sense and serves to stabilize Alaska's cyclical housing market, both in good times and bad.

The net effects of the proposed legislative mandate would be positive to the State, AHFC, and the Alaska real estate market, and would make AHFC a more effective organization in carrying out public policy. We recommend, therefore, that the Legislature consider the following long-term mandates:

- Focus AHFC'S role on low- and moderate-income housing, but retain AHFC in a "backstop role" to provide taxable mortgage financing, as required. This will help stabilize the Alaska housing market in the long-term
- Restructure AHFC's financing mechanisms to concentrate on tax-exempt revenue bonds. This will be consistent with its focus on low- and moderate-income housing and holds the long-term potential of freeing up part of AHFC's capital base
- Enable AHFC (through elimination of the subsidy and by operations improvements) to operate on a break-even or profitable basis. This will provide funding for the housing backstop role and provide the potential to pay dividends from operations to the State
- Make AHFC more independent of close legislative control. This will promote both efficiency of operations and the ability to respond to market conditions based on long-term legislative policy
- Require AHFC to pay operating dividends to the State. This is a reasonable condition considering the large investment already made by the State
- Protect AHFC's capital base and avoid new capital infusions by the State. This will protect AHFC's financial integrity. Also, because AHFC will be breaking even or making a project, no new capital will be required.

**A. POLICY OPTIONS**

Three options were evaluated during the course of this study:

- Phase-out or eliminate the interest rate subsidy
- Return AHFC to original legislative intent of providing for low- and moderate-income housing
- Change the ownership of AHFC.

Each of these is described in the subsections which follow.

**1. Change AHFC Subsidy**

The first option evaluated was a change in the current interest rate subsidy now provided by AHFC. This change could range from a gradual phasing out of the subsidy to its one-time elimination. Phasing out of the subsidy would allow adjustment by the housing sector, including mortgage financing sources, in the removal of AHFC as a below market price source of mortgage funds. On the other hand, a one-time elimination of the subsidy, rather than a gradual phasing-out, would make sense if market conditions were such that AHFC was no longer providing lower than market rate financing.

Phasing out of the subsidy can be done by either of the following two methods:

- Reducing the spread between AHFC's cost of funds and the rate provided to a borrower (e.g., from three percent to zero percent over time)
- Reducing the loan amount on which the subsidy is applied (e.g., from the first \$90,000 to some lower figure over time, eventually to no subsidy).

There may not be any effective difference between the above two alternatives if AHFC cost of funds are low enough that there is no subsidy being provided. It was pointed out in Section II of this report that there was no subsidy on most new loans purchased in fiscal year 1986 and 1987, and only with an increase in the costs of bonds issued in 1988 and 1989 has the subsidy actually reappeared for some AHFC programs. Depending on where

interest rates may head in the future, and AHFC's resulting cost of funds, there may be no significant subsidy provided by AHFC currently, and in the very near future.

By State statute, AHFC currently provides a subsidy of residential mortgage rates. For most loans purchased by AHFC, the interest rate on the first \$90,000 is three percent less than the cost of funds used to purchase the loan, except that: (1) if the cost of funds is less than ten percent, the interest rate is equal to the cost of funds, and (2) if the cost of funds is greater than ten percent, the interest rate may not be less than ten percent. A qualifying veteran is provided an additional one percent subsidy on the first \$90,000 of a loan. The interest rate on the remaining balance of a loan is at AHFC's cost of funds.

The only exceptions to how the interest rate on a loan is determined under the subsidy statutes are as follows:

- MGIC special financing of selected properties with previous MGIC pool insurance. The interest rate is to be selected by MGIC or by AHFC, depending on the property being financed. The weighted average interest rate on all 161 loans purchased in fiscal year 1989 was 9.1 percent, about one-half of one percent higher than the tax-exempt rate for fiscal year 1989.
- Non-Conforming property loans, which carry an interest rate which is one-quarter of one percent higher than the taxable rate for the same loan amount. The reason for the interest rate adjustment is because the risk is greater to AHFC, and because the loan cannot be sold to FNMA and must be held by AHFC.

## **2. Return AHFC to Original Legislative Intent**

The second policy option examined involved restructuring AHFC housing programs to include just those which provide affordable housing for persons and families of low and moderate income, as well as for persons living in remote, underdeveloped, or blighted areas. Determining which existing programs actually meet the original legislative mandates can be accomplished in two ways:

- Identify programs whose eligibility requirements include income or asset ceilings, or provide an incentive (or remove a barrier) to financing properties in remote areas

The AHFC has income or asset limits on just two programs: tax-exempt bond financed program and the Home Ownership Assistance (HOE) program. None of the other programs have limits placed on a borrower's income or assets, and there are no programs specifically designed for persons in remote, underdeveloped, or blighted areas. A rural program is provided by the Department of Community and Regional Affairs which makes loans at one percent less than AHFC, although this program is not limited specifically to underdeveloped or blighted areas

- Identify programs actually used by persons and families of low and moderate income, or who purchase housing in remote, underdeveloped, or blighted areas

Determining who uses the programs can be accomplished by reviewing the demographic data maintained by AHFC on each borrower and on the entire loan portfolio

The determination of what is low- or moderate-income has been made by AHFC for the tax-exempt program, following federal regulations. The borrower's annual family income cannot exceed 115 percent of the median income of the area. The maximum annual incomes which AHFC has established for nine geographic areas of the State range from \$53,130 (all "other" areas of the State) to \$71,530 (Juneau). The average income of the borrowers in each of the following programs is well below the lowest AHFC limit of \$53,130 as shown in Table 1, on the following page.<sup>1</sup>

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<sup>1</sup> AHFC also has established for the tax-exempt program the maximum purchase price of the home, based again on federal regulations. Federal regulations limit the purchase price to 90 percent of the area's average sale price.

Table 1  
Average Annual Income of AHFC Borrowers

AHFC Program	Borrower Average Annual Income <sup>2</sup>
• Home Ownership Assistance (HOF)	\$25,431
• Mobile Homes	\$33,018
• MGIC Special Financing	\$36,507
• Tax Exempt	\$42,305
• Non Conforming Property	\$42,354

The alternatives we examined included a gradual phase out of the two programs which are not specifically designed to provide for low- or moderate-income housing and which have not historically been used primarily by individuals of low or moderate income. These two other programs are taxable and second mortgage.

The veterans program was assumed maintained as an active AHFC housing program for financing of new loans. In addition, we assumed that AHFC would continue the Home Owners' Assistance Program (HOAP), although this program is not actually a low- to moderate-income program. This refinancing program is needed to assist AHFC borrowers in lowering their monthly payments, and to help mitigate the potential impact on AHFC's financial position from loans which may otherwise become delinquent or go into foreclosure.

Finally, although the mobile home loan program has resulted in significant losses to the AHFC, the program provides housing for that sector of Alaskans who may not otherwise be able to purchase a home. We have assumed that the mobile home program would be continued. We understand that AHFC is planning changes to the mobile home

<sup>2</sup> The programs listed are ranked by the average annual income of all borrowers obtaining financing in the program over the last three fiscal years (July 1, 1986 through June 30, 1989).

loan program which would increase the down payment required and reduce the loan terms to be more in line with industry underwriting practices for mobile home loans.

### **3. Change Ownership of AHFC**

This third option was the most difficult to define of the three options examined. This option generally involves selling a portion or all of the Corporation to a third party. This could possibly include the following alternatives:

- Selling all AHFC assets
- Selling a selected portion of AHFC assets
  - Real estate owned (foreclosed) properties
  - Loans of a selected type or bond program
- Creating a joint venture of financial institutions and the State Permanent Fund
- Creating and selling stock in the Corporation and paying a dividend to stockholders
- Contracting with a private firm(s) to manage the disposition of real estate owned properties.

During the course of this study, we did not identify a single potential buyer of any AHFC assets. It should be pointed out that most of the financial institutions participating in AHFC programs do not maintain residential real estate loans but rather sell these to either AHFC or other secondary mortgage purchasers. We found little support or basis for assuming that these same institutions would buy back the loans or foreclosed properties, unless for a very deep discount on the assets.

**B. EVALUATION METHODOLOGY**

We determined the implications of each feasible policy option on the following:

- Alaska State housing market. We considered the potential impact on the present demand for home loans. Given an oversupply of housing in most geographic areas of the State, we focused on resales rather than new construction.
- AHFC financial position. Specifically, we projected the change in AHFC net unrestricted (or "liquid") assets through fiscal year 1993/94.
- State Funds. We estimated whether an additional injection of state funds would be needed to support AHFC programs, or if AHFC had sufficient financial resources to provide a return to the State on its current investment in the Corporation.

**1. Methodology to Evaluate Impact of Policy Options on Alaska State Housing Market**

We estimated the total number of new loans originated statewide and AHFC's approximate share of that market. This included an estimate of the type of loans purchased, that is, whether the loans were FHA or VA insured, or were conventional loans which have private mortgage insurance or at most an 80 percent loan-to-value ratio. For each option we determined the number of new loans which may or may not be purchased by AHFC and whether there would be a secondary market for loans AHFC was no longer purchasing. A discussion is presented of the likely impact that AHFC's withdrawal from a market segment would have on the ability of home buyers to obtain financing at a reasonable cost.

**2. Methodology to Evaluate Impact of Policy Options on AHFC Financial Position**

Our measure of the financial position of AHFC was unrestricted net liquid assets available to the Corporation. As noted earlier in Section III of this report, unrestricted assets include cash, investments which mature over the five-year projection period, and mortgage loans available for pledging to bond issues. These assets are net of short-term

obligations of the Corporation. Also included are loans and investments which are currently pledged to a bond issue but which will be released when a specific bond issue is paid off during the five year projection period.

Under baseline conditions, that is, assuming continuation of existing AHFC volume of purchases under each major loan program, we projected what the change in unrestricted net liquid assets would be over the next five years (fiscal year 1989/90 through fiscal year 1993/94). For each policy option, we then estimated the change (i.e., increase or decrease) in net unrestricted assets over the next five years, due either to a change in the subsidy provided, a change in the number of loans purchased under a program, or both.

### **3. Methodology to Evaluate Impact of Policy Options on State Funds**

Based upon the estimated change in net unrestricted assets over the next five years, we determined whether additional State funds would need to be appropriated to AHFC, or whether funds were available to return to the State. This estimate was judgmental because there is no legal requirement nor definition of appropriating funds from AHFC.

## VI. POLICY OPTION TO CHANGE AHFC SUBSIDY

This section of the report reviews the policy option to change the AHFC subsidization of interest rates. It is organized under the following headings:

- *Overview of Subsidy*
- *Description of Alternatives to Change Subsidy*
- *Analysis of Elimination of Subsidy*
- *Analysis of Phase-Out of Subsidy*
- *Impacts of Changing the Subsidy*
- *Conclusions Concerning the Subsidy.*

### A. OVERVIEW OF SUBSIDY

This section is intended to review the impact of changing AHFC's practice of subsidizing residential mortgage rates, either through immediate elimination of the subsidy or through some form of phase-out. For purposes of this section, we are referring to the term "subsidy" as the Corporation's practice of providing interest rates to mortgage holders at a rate below the Corporation's cost of funds. This subsidy is essentially financed through overcollateralizing bond issues (through the influx of Corporate capital).

The section is intended to only address bond-financed programs and not the various programs offered by the Corporation which are financed directly and/or entirely by State appropriated monies. Additionally, elimination or reduction of the subsidy as discussed in this section pertains only to the "buy-down" of interest and is not related to those interest rates necessary to ensure the tax-exempt status of applicable bonds.

The Corporation's (and State's) subsidization of interest rates first came about as a result of legislation passed in 1980 which stipulated the following<sup>1</sup>:

- The interest rate may not exceed nine percent for the first \$90,000 of the loan if the loan is made to an eligible veteran
- The interest rate may not exceed 10 percent for the first \$90,000 if the loan is made to a person other than an eligible veteran
- The interest rate for the amount of the loan which exceeds \$90,000 shall equal the mortgage program costs to the Corporation attributable to that part of the loan.

Subsequently, in an effort to reduce the Corporation's exposure in times of escalating interest costs, a ratcheting measure was introduced to establish a cap on the subsidy. This was done in 1981, through changes in legislation. The principal effect of this change was to cap the Corporation's exposure to a three percent subsidy on the first \$90,000 of a loan.

The Corporation's practice of subsidizing interest rates for almost ten years has accounted for an exhaustion of significant resources appropriated to AHFC by the State of Alaska. Eventually, depending on the scenario predicted for the future in regards to interest

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<sup>1</sup> Excerpt from Alaska State law Chapter 106, Sec. 18.56.098 (1) (2) (3).

rates and loan demand, these State appropriations will be totally depleted if this practice is continued. Accordingly, without additional State appropriations sometime in the future, the Corporation's capital base will gradually be weakened and its ability to provide any assistance (even to first-time homebuyers) may some day no longer exist.

**B. DESCRIPTION OF ALTERNATIVES TO CHANGE SUBSIDY**

In this section we address alternatives for changing the historic and current practice of subsidizing interest rates. Although many possible alternatives exist, we believe the following three are the most meritorious, and we will therefore limit our discussion to these:

- Complete elimination of the subsidy as of a pre-determined future date (for purposes of this Section we chose June 30, 1990 for reasons shown below)
- Complete elimination of the subsidy as of a pre-determined future date, but only if conditions (principally interest rates) are favorable at that time
- A phase-out of the subsidy over a future period of time (such as would result from a draft bill dated October 5, 1989, proposed by Mr. Robert Mintz, Chairman of the Board, AHFC).

These alternatives, and their possible impacts on the market, the Corporation, and State appropriated monies, are discussed below.

### C. ANALYSIS OF ELIMINATION OF SUBSIDY

Although the subsidy of interest rates provided valuable benefits to Alaskan homeowners at a time when the State had a need to attract buyers of residential property and also had the available resources to fund such an effort, today, circumstances have significantly changed. Specific negative attributes which are directly associated with the present subsidy are as follows:

- The subsidy may have historically contributed to artificially increased housing prices
- The subsidy may have acted as a factor in driving out of the market competitive sources of mortgage capital
- The subsidy is not a sound economic or financial practice for AHFC, and funds already appropriated will run out at some future date
- The subsidy today may be construed to be an indiscriminate use of increasingly scarce State resources.

Because of the above probable detrimental effects of the subsidy and the dramatic changes in the economy since the early-to-mid 1980's, the sooner the practice of subsidizing interest rates is terminated (as long as it is done properly), the better. Although we tried to consider all possible ramifications of subsidy elimination, our analysis of a termination of the subsidy was strongly motivated by the need to restore financial soundness to the AHFC.

Because we firmly believe that some change in the subsidy is inevitable, we determined under what conditions cessation of the subsidy would be most favorable. We believe the conditions when the least negative impact would be felt from elimination of subsidy would be at a time when:

- The Corporation's cost of funds pertaining to bond issuances are below threshold rates
- The demand for new mortgage loan applications is minimal
- Housing prices are at, or near, a low point in comparison with the recent past and expected (at least in the short-term) future
- Market interest rates, projected over at least the short-term, are expected to remain constant or decline.

We reviewed the current situation regarding the supply of unused bond proceeds at AHFC. Exhibit VI-1, following this page, lists all of the Corporation's currently active bond-financed programs and illustrates the proceeds (or overcommitted amounts) remaining for financing loans as of December 31, 1989. The exhibit includes proceeds from bonds issued through this date.

For purpose of Exhibit VI-1, the availability of proceeds (funds) includes not only investor pools already purchased, but investor pools ready to be purchased, mortgages ready to be pooled, and outstanding commitments to mortgage loans. Therefore, the "uncommitted funds" (or overcommitted amounts in some cases) reflect a minimum level of total availability of bond proceeds. We have included overcommitments on this exhibit merely to illustrate the demand level for certain of the programs. Along with this information, we have included the Corporation's cost of funds pertaining to the associated bond issuances. All information shown was made available from AHFC internal records.

Our observations of Exhibit VI-1, as well as our other analyses, is presented below. We have segregated this discussion into three principal program categories, as follows:

- Tax-exempt and Veterans bond programs
- Refinancing bond programs (HOAP)
- Taxable bond programs (other than HOAP).

*Tax-exempt and Veterans' Bond Programs:* An opportunity appears to currently exist for the complete elimination of the subsidy pertaining to these programs for the following reasons:

- The cost of the Corporation's funds are sufficiently below the threshold rates (10 percent and 9 percent, respectively)
- According to AHFC management, and recent history of loan applications, there currently exists sufficient available proceeds to meet demand over at least the next year.

**AHFC Schedule of Available Funds**  
**As of December 31, 1989**  
**(\$ Millions)**

Bond-Financed Program	Uncommitted (Over Committed) Funds	Cost of Funds
<b>First-Time Homebuyers:</b>		
1987 A	\$ (2)	8.92%
1988 A-1	(1)	8.57%
1988 A-2	(5)	8.43%
1988 A-3	25	8.65%
1989 Series A(a)	-	-
1989 Series B(b)	<u>148</u>	Floating
	<u>\$165</u>	
<b>Veterans:</b>		
1988 First	\$ (5)	8.81%
1989 First	<u>45</u>	8.25%
	<u>\$ 40</u>	
<b>Taxable:</b>		
CMO 1989-2	(1)	10.78%
CMO 1989-4	<u>12</u>	10.42%
	<u>\$ 11</u>	
<b>HOAP:</b>		
1988-1(c)	\$ (7)	
1988-2(c)	(7)	
CMO 1989-1	(20)	12.23%
CMO 1989-3(d)	<u>-</u>	-
	<u>\$(34)</u>	

- (a) Original issuance was for \$90 million. This was subsequently refunded from proceeds of 1989 Series B.
- (b) Issuance closed near the end of November 1989. Initial interest at 6.19 percent; cost of funds is currently below 10 percent.
- (c) Cost of funds were unavailable, however rates were estimated at substantially above 10 percent.
- (d) A \$70 million issuance was sold late in 1989. All proceeds were committed at December 31, 1989.

Also, with regards to these two programs, a "subsidy" would still remain (only in a different form) because tax-exempt financings (by the very nature of these bond structures) should continue to provide qualified applicants with below market interest rates.

*HOAP Bond Programs:* We have segregated the HOAP programs from other taxable programs because of the importance of the Corporation's attempt to provide a vehicle to restructure (in the form of refinancings) certain of the earlier programs sponsored by the AHFC. Therefore, even though there is currently a definite subsidy involved with loans issued under the HOAP programs, we would not necessarily suggest that this particular subsidy be universally ceased.

We understand from AHFC management that demand for these loans has recently slowed and that total future bond proceeds expected to be necessary as of December 31, 1989, to fund the expected loans necessary to complete the HOAP programs, is estimated at \$90 million. This will be accomplished through the issuances of bonds under the HOAP III program. Although the loan funding period is expected to continue throughout the Corporation's 1990 and 1991 fiscal years, two alternatives exist under the scenario of eliminating the subsidy in the HOAP programs as of June 30, 1990, as follows:

- The Corporation could issue all bond(s) necessary to fund the entire HOAP III program prior to the change in legislation as of June 30, 1990. We suggest this method be given top priority as it is the most financially sound alternative and because it treats all programs equitably with regards to removal of the subsidy
- If the first alternative is not feasible, we suggest a change in legislation as of June 30, 1990, with the intent of eliminating the subsidy, but specifically segregating refinancings with elimination of the subsidy under the HOAP programs as of June 30, 1991, if not before. However, from a legal perspective, this may result in due process concerns. Finally, if the second alternative is chosen, we would support a formal cost-benefit analysis be performed showing that the subsidy cost to AHFC for the HOAP III refinancings is offset by future savings in REO or other costs.

*Taxable Bond Programs:* As can be seen from Exhibit VI-1, the taxable programs present a potential downside to the proposal of eliminating the subsidy,

as recent bonds issued have a cost of funds at a rate slightly higher than the ten percent threshold rate. Also, even though some uncommitted funds exist, demand over the next few months will most likely exceed the amount of these available funds.

However, we believe that a window of opportunity still exists currently to eliminate the subsidy for taxable programs because of the following rationale:

- Interest rates, according to numerous industry sources (including the National Association of Realtors, economists polled by Wall Street, and representatives from the Federal Reserve Board) are expected to remain stable or decrease slightly in 1990<sup>2</sup>
- Demand for new home loans is at a low point as compared to the past couple of years
- The price of housing, according to local Anchorage real estate and financial institution representatives, appears to be at or near the bottom
- Additional taxable bonds could be issued, based on expected demand, to provide for a cushion of available funds, if necessary. This issuance of additional taxable bonds could provide for a smoother transition prior to the date set for elimination of the subsidy. However, this action should be taken only if interest rates are advantageous and it makes general economic sense considering all relevant factors.

In summary, because of the above considerations, it appears that a very unique window of opportunity currently exists to allow for the complete elimination of the subsidy. However, we wish to emphasize that an elimination as of a set date (June 30, 1990) is only appropriate under the conditions noted above. A significant time delay in implementing the change could result in changed market and economic circumstances. Therefore, as a possible backstop, a ratchet mechanism may be wise to consider. That is, eliminate the subsidy through revised legislation as of a set date (again June 30, 1990 seems to be appropriate), but provide for the ability to extend this date if conditions are not actually favorable at that time.

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<sup>2</sup> On January 8, 1990, major U.S. banks cut their prime lending rates a half point to ten percent in a move that should translate into lower borrowing costs for consumers and businesses. First National Bank of Chicago took the first step and was followed by Citicorp, Bank of America, Wells Fargo, and First Interstate Bank of California. Reports indicate that long-term mortgage rates will also decline slightly.

**D. ANALYSIS OF PHASE-OUT OF SUBSIDY**

As an alternative to eliminating the subsidy as of a set date, it could be phased out over a period of time. A phase-out could be accomplished by either of two principal means. Either the maximum interest rate differential (between the threshold rate, and the Corporation's cost of funds) could be scaled back over time, or the dollar amount of the loan subsidized (currently \$90,000) could be reduced pro-rata over a period of time. We understand that the latter method is currently being proposed in a draft bill by Mr. Robert Mintz, Chairman of the Board of AHFC.

Although either of the above two methods would eventually result in the same effect as the entire elimination of subsidy as of a set date, we believe that the more timely elimination is preferable. This is principally because of the unique window of opportunity which we feel currently exists in the near-term and which may not exist over the longer term. Also, earlier elimination of the subsidy will have less negative financial impacts to the AHFC and the State.

**E. IMPACTS OF CHANGING THE SUBSIDY**

We addressed the impact of changing the subsidy as to its effect on the housing market, AHFC, and the State (appropriated funds). Below is a summary of what we determined to be the impacts:

*Market:* We addressed the impact to the housing market under three separate circumstances, as follows:

- If no subsidy exists and is not expected to exist in at least the short-term future, there would theoretically be no effect on the housing market. This is currently the case with the tax-exempt and Veterans' programs
- If a minor subsidy is in effect, such as is the case with the taxable programs, the impact may be minor but it should not be significant because of the potential ability to create a cushion of available funds for financing loans during the transition period. Also, the premise that housing prices appear to be at or near the bottom should help to minimize any effect to the housing market
- If a minor subsidy exists, but interest rates increase significantly before the transition period, a more serious downside effect would occur. If this "worst-case scenario" were to take place, some form of ratcheting (such as extending the effective date of eliminating the subsidy until conditions were more favorable or phasing-out the subsidy over time) would obviously be necessary. However, based on projected interest rates, we do not currently believe this to be the likely scenario.

*AHFC:* Either the elimination or phase-out of subsidization of interest rates will definitely provide for a financially stronger Corporation. Other impacts to AHFC will be as follows:

- Generally, the eventual elimination of the subsidy will provide no negative effect to Corporation bond or loan covenants
- Because of the stronger financial condition which will result, there should be no negative effect to the Corporation's bond ratings from credit rating agencies. However, the cessation of interest rate subsidization must remain (in appearance as well as in fact) independent of any possible appropriations

by the State as it is important not to promote any form of an extraction of Corporate assets or equity

- Without the subsidization of interest rates for the taxable programs, the Corporation will appear to lose much of its competitive market advantages over the private sector. This may ultimately, in the long-term, lead to a healthier competitive capital market environment.

Perhaps even more important than the above considerations, without any future changes to the subsidy, and no further State capital injections, we have projected that the Corporation will have a major decrease in its unrestricted net liquid assets over the next five year period. Because of the immaterial amount of total unrestricted net liquid assets available as of June 30, 1989 (only \$10 million), any substantial decrease in unrestricted assets will have the following two important negative impacts on the Corporation's short-term borrowing arrangements:

- If minimum unrestricted net liquid asset balances are not maintained, the Corporation may be in a default position on its working capital debt
- If net losses resulting from bond programs continue in the future, the critical short-term Corporation borrowing arrangements necessary for day-to-day operations may be severely jeopardized.

*State Appropriations:* Because elimination of the subsidy will provide for a more financially solvent AHFC, this may be one of the few ways for the State to ever receive a return on their substantial contributed capital. This is assuming the AHFC has to reach at least break-even operations in order to be able to return a dividend from operations to the State.

We have analyzed the effect to the Corporation's Operating and General accounts (measured by net liquid assets) over the next five-year period (ending June 30, 1994) under the assumption of eliminating the subsidy as of June 30, 1990. We followed the methodology as in our baseline projections, discussed in Section V.

As can be seen in Appendix B, at the end of this report, the net effect of this subsidy elimination is estimated to increase unrestricted net liquid assets of the Corporation by \$43 million to \$91 million over our projection of an "as-is" scenario

for the same future period. Therefore, the net effect over a five year period of eliminating the subsidy may range from \$43 million to \$91 million, depending on market conditions. In summary, elimination of the subsidy will reduce costs, either to the State or to the Corporation, by substantial amounts.

## **IX. CONCEPTUALIZATION OF AN IDEALIZED AHFC**

The discussions in previous sections analyze the potential effects of implementing certain policy options with respect to AHFC. From time to time we have noted in text certain other measures that should be considered by the legislature in order to make AHFC more effective and to better define its role in Alaska's housing market.

In this section, we bring these comments together to present a blueprint for AHFC that should help define its role in the years ahead. We have attempted to ensure that the role of AHFC, as described in this section, makes good public policy sense and serves to stabilize Alaska's cyclical housing market in both good times and bad.

This section is organized as follows:

- *Introduction*
- *Define and Limit AHFC's Role in the Housing Market*
- *Structure AHFC to Operate on a Break-even or Profitable Basis*
- *Require AHFC to Adopt a Dividend Policy*
- *Protect AHFC's Capital Base and Avoid New Capital Infusions*
- *Restructure AHFC's Financing Mechanisms*
- *Make AHFC More Independent of Direct Legislative Control*
- *Summary of the Future of AHFC.*

## A. INTRODUCTION

We understand from discussions with legislators and others that consideration of a reduction of AHFC's scope to its original legislative intent derives from the following:

- Belief that AHFC's current scope of activities, while possibly appropriate for good times, may contribute to a mis-allocation of scarce State resources in lean years
- Belief that AHFC's extensive involvement in the housing market may cause market distortions, and could possibly prevent the return of private capital to the market
- Belief that, were AHFC's scope to be more limited, its capitalization could be reduced and some contributed State capital might be returned to the State
- Finally, belief that State involvement in the housing market to the extent represented by AHFC's current role is questionable public policy in more general philosophic terms.

While these beliefs may not be universally held, our observations during the course of this study generally support them. Accordingly, we attempt in this section of the report to pursue the question of "return to original legislative intent" to its logical conclusion. In our view, return to original legislative intent should consist of more than just trimming programs. It requires a comprehensive, overall view of what AHFC should be and what role it should play. It also requires, ultimately, a clear legislative mandate with respect to AHFC defining its long-term direction.

Original legislative intent was to facilitate decent, safe, and sanitary housing for persons of low- or moderate-income, and for persons in remote, underdeveloped, or blighted areas. AHFC currently serves this intent through most of its programs, although the "remote, underdeveloped, or blighted areas" are perhaps more directly served by DCRA programs—AHFC's Non-conforming Loan Program is not currently very active. Reduction of the Taxable Program, as discussed in Section VII, would focus AHFC even more on its original intent.

Beyond original intent, however, we note that three additional issues have arisen which are of concern to the legislature:

- First, the State is expecting increasingly severe fiscal pressures from a likely diminution of oil revenues. It is asking whether it should perhaps expect some return on its investment in AHFC to help supplement other revenues in balancing future budgets
- Second, the State is asking whether or not the capital contributed to AHFC is totally committed, or whether under some future circumstances some of that capital might be returned to the State
- Third, there is the issue of AHFC's effectiveness both in operational terms and in terms of its freedom to act in accord with market versus political conditions.

The first and second questions have been briefly addressed in Section VII of this report, and will be further discussed below. The third question, we believe, can be dealt with only by removing AHFC a further step from day-to-day oversight and control by the legislature. We believe that, in order to address all three questions in an effective manner, a clear and formal legislative mandate is required to define policy for AHFC on a long-term basis. The elements of a proposed mandate are discussed below.

**B. DEFINE AND LIMIT AHFC'S ROLE  
IN THE HOUSING MARKET**

The first part of the proposed formal legislative mandate is that AHFC should generally serve homebuyers in lower income levels. This concept is evident in the enabling legislation. The basic premise is that scarce State resources should be allocated where they best serve public policy, that is, in providing decent housing for those otherwise unable to obtain it.

At the same time, it is important that AHFC retain a role as "backstop" for the more general housing market, should one ever be required. Alaska's residential mortgage market is capital-poor and depends almost entirely on outside capital to function. At the same time the State is largely dependent on commodity markets for its economic health, and commodity prices tend to fluctuate frequently and widely. Thus, residential mortgage demand and housing prices will continue in the future to be affected both positively and negatively by swings in the overall economy.

This combination of a capital-poor mortgage market and an unstable housing market dictates that the State maintain an ultimate housing backstop mechanism to add stability to the market. AHFC is the ideal mechanism because it is already established, it has existing institutional relationships with outside capital sources, it has an existing substantial equity base, and it has both experience and expertise in funding the residential market.

But the backstop role brings with it certain responsibilities and the necessity for discipline:

- First, this is a "reserve role." That is, the backstop function should only be brought into play in economically hard times. It should not be used as a social benefit in good times, as has been the case in the recent past
- Second, to fulfill this role, AHFC should be allowed to bank good years against bad. Since the backstop role is not compatible with AHFC's long-term goal of break-even or profitable operations, AHFC should be allowed to retain sufficient earnings in good years to subsidize the market as necessary in bad years.

Public policy, in other words, must avoid the temptation to use AHFC as a channel for public benefits at precisely those times when such benefits can best be afforded. It must instead allow AHFC to earn some profits in good years, bank some of those profits, and use the resulting reserves to support the market in bad years.

**C. STRUCTURE AHFC TO OPERATE ON  
A BREAK-EVEN OR PROFITABLE BASIS**

The second part of the proposed formal legislative mandate is to structure AHFC programs to operate on an overall break-even basis, or to earn some profit. This supports two policy goals:

- First, it generates funds in good years which AHFC can retain to perform its backstop role
- Second, it generates earnings from operations for dividends which can be paid to the State.

There are several mechanisms to increase profitability:

- Terminate the subsidy. The subsidy of mortgages below AHFC's cost of funds will cause AHFC to incur continuing losses, diminish State-contributed equity, and ultimately require further State funding
- Reduce the taxable program. Under current financing mechanisms, the requirement for overcollateralization of bond issues ties up significant amounts of cash, even without a subsidy
- Consider termination of programs with minimal demand. Several AHFC programs served fewer than thirty Alaskans in fiscal year 1989. The cost of retaining and administering such programs likely far outweighs any benefits received
- Consider termination of programs which are uneconomic by nature. Whenever AHFC programs fund housing types that other market sources avoid, or on terms substantially better than other market sources, the potential for ultimate loss exists and may well be realized.

**D. REQUIRE AHFC TO ADOPT A DIVIDEND POLICY**

The third part of the proposed formal legislative mandate is to require a prudent dividend policy of AHFC. To the extent that AHFC has positive earnings, and those earnings are not required to fund reserves for AHFC's backstop or other market critical stabilization roles, the State should expect that these earnings from operations will be returned to the State.

Although it is not evident from original intent that such a return was expected, it is also clear that AHFC's subsequent massive funding was not anticipated at that time. Taking the opportunity cost of funds into account, the State (viewed as an investor) is incurring substantial conceptual losses on its investment in AHFC. A prudent dividend policy, combined with a more profitable AHFC, should help remedy this situation.

Again, discipline will be needed. The temptation may be to seek dividends at precisely those times when Alaska's economy (and most likely the housing market as well) is undergoing difficulties. Since these will probably be the times when AHFC is fulfilling its backstop role, no dividends are likely to be available. In other words, dividends should be most available at the times when they are least needed.

**E. PROTECT AHFC'S CAPITAL BASE  
AND AVOID NEW CAPITAL INFUSIONS**

The fourth part of the proposed formal legislative mandate is two-fold:

- Rule out any appropriation of AHFC's capital base to the State, either directly or indirectly. An example of an indirect appropriation is the proposed Senate Bill 245 requiring AHFC to purchase mortgage loans from the Housing Assistance Division. We evaluated this proposal and report our findings in Appendix D to this report
- Clearly state a policy of not further subsidizing AHFC through capital infusions.

The first part of this mandate is to protect AHFC's financial integrity. So long as AHFC must access capital markets for funds on a general obligation basis, and so long as substantial general obligations of AHFC's capital base exist, any threat of capital appropriation may impact AHFC's borrowing ability. Financial markets see even the threat of appropriation as reducing the security of their loans. Furthermore, AHFC may need substantial reserves in the near future to deal with continuing REO losses and contingent losses from insurance disputes. Ultimately AHFC may not need such a substantial capital base if funding mechanisms are changed (see below), but for the time being it is important that its capital not be threatened.

The second part of the mandate offsets the first. If AHFC is to be put on a break-even or profitable basis, and if its capital is not to be threatened, then it is reasonable that AHFC and its capital markets expect that the State not supply further funding. Proper maintenance of reserves to support AHFC's backstop role will mean that, even in bad years when AHFC may be required to subsidize the market, no further capital will be required.

**F. RESTRUCTURE AHFC'S FINANCING MECHANISMS**

The fifth part of the proposed formal legislative mandate is that AHFC implement a long-term program to restructure its financing mechanisms. Because its focus is to support low- and moderate-income housing, it is reasonable that it consider tax-exempt revenue bonds as a primary funding source, as do other states with housing finance agencies operating in a similar role.

While original legislation clearly allowed issuance of general obligation bonds, the effect of those issuances has been to use all contributed State capital as collateral for money borrowed by AHFC. Revenue bonds, unlike general obligation bonds, are not guaranteed by the "full faith and credit" of the Corporation. Their security is far more limited.

As the situation currently stands, any appropriation of money from AHFC to the State is likely to be viewed as weakening AHFC's financial position, thus threatening the security of holders of AHFC bonds, regardless of specific collateral requirements of the bond indentures. Revenue bonds, since they are secured only by mortgage income streams plus whatever specific reserve funds are required for additional security, would not have this effect.

**G. MAKE AHFC MORE INDEPENDENT  
OF DIRECT LEGISLATIVE CONTROL**

The final part of the proposed formal legislative mandate would be to redefine AHFC's organizational positioning to allow more independence from legislative pressures, and limit the legislative role to providing long-term policy direction and assessment of management's success in fulfilling policy objectives. Particular steps to be considered include:

- Increase the size of AHFC's Board of Directors and allow a higher percentage of private sector representation on the Board. It is essential that the Board be composed of knowledgeable and active members, and that the private sector members adequately represent the range of industry interests in the housing markets
- Free AHFC from the legislative appropriation process so far as possible, and judge organizational effectiveness based on results obtained.
- Allow AHFC within reason to set its own personnel policies, including hiring, termination, promotion, and compensation levels
- Allow AHFC to obtain in-house counsel of a strength commensurate with the magnitude and complexity of its activities.

**H. SUMMARY OF THE FUTURE OF AHFC**

The net effects of the proposed legislative mandate would be positive, and would make AHFC a more effective organization in carrying out public policy:

- Focusing AHFC's role on low- and moderate-income housing would reduce AHFC losses. Retaining the backstop role would help stabilize the housing market in the longer term
- Restructuring AHFC to operate on a break-even or profitable basis would mean no need for new State capital, funding for a backstop role, and the potential of dividends for the State
- Requiring operating dividends to the State is a reasonable step considering the potential profitability of AHFC's operations and the investment made
- Protecting AHFC's capital base and avoiding new capital infusions are both desirable. One protects AHFC's financial integrity and minimizes its cost of doing business; the other follows from the fact that, since AHFC will be breaking even or making a profit, no new capital should be needed
- Restructuring AHFC's financing mechanisms to concentrate on tax-exempt revenue bonds is consistent with its newly redefined focus and holds the long-term potential of freeing up part of AHFC's capital base
- Making AHFC more independent of close legislative control promotes both operating efficiency and the ability to respond to market conditions based on long-term legislative policy.

These steps toward an "idealized AFHC" should allow AHFC to serve the residential mortgage market in Alaska more effectively, both in good times and in bad. Although implementation is likely to be a long and arduous process in some instances, we believe the proposed mandate is worthy of consideration by the legislature.

S

B

428

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/26/90

FURTHER:

DATE TURNED INTO OFFICE: 3/8/90

The Finance Committee considered

SB 428

"An Act relating to the Alaska marine highway system, its funding and its budget; establishing the Alaska marine highway system fund; and providing for an effective date."

and recommended:

- replace with \_\_\_\_\_ CS
  - or adopt \_\_\_\_\_ CS SB 428 (Trsp)
  - attached amendment(s)
  - \_\_\_\_\_ letter of intent adopted
- same title
  - new title
  - technical title change (HB only)

- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to \_\_\_\_\_

**ATTACHES NEW FISCAL NOTE(S):**

fiscal note(s) Dept/Date: \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

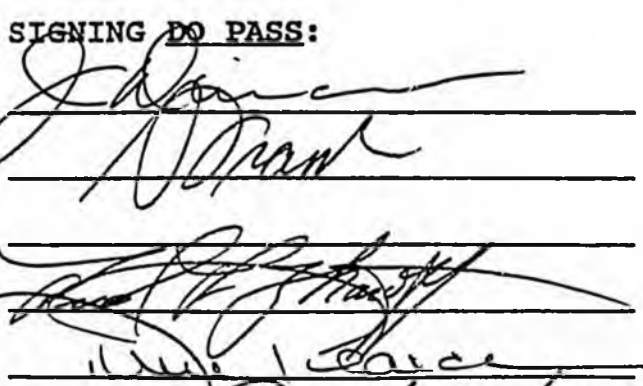
appropriation-no fiscal note

**APPROVES PREVIOUS:**

fiscal note(s) Dept/Date: DCR-AMHS 2/15/90  
REV 37,110.7 / CF (37,110.7)

zero fiscal note(s) DOA-Fin 2/16/90  
DOT/PEA-AMHS 2/14/90  
DOA-Treas 2/14/90

**SIGNING DO PASS:**



**OTHER RECOMMENDATIONS:**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

1. Rich Healy (NO PASS) 2. John R. ... No Rec.

Co-Chairs: signatures and Recommendations

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Administration  
Title: An Act relating to AMHS, its funding and its budget, establishing the AMHS fund. BRU: Finance  
Sponsor: Duncan Components: Finance  
Requestor: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

No additional appropriation for the Division of Finance is anticipated to be required. The only involvement of the Division of Finance is to establish the Alaska Marine Highway System Fund as an account in the General Fund. Required reporting and administration of the fund will be under the control of the Alaska Marine Highway System.

Prepared by: Keith Busch, Director *Keith Busch* Phone: 465-2240  
Division: Finance Date: 2/16/90  
Approved by Commissioner: Frank S. Baxter *Frank S. Baxter* Date: 2/16/90  
Agency: Department of Administration

Distribution (by preparer):

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

Changes in CS SB 428 (Trsp)  
have no fiscal impact.  
This fiscal note is CM  
appropriate.

STATE OF ALASKA  
1990 LEGISLATIVE SESSION

BILL VERSION: CS SB 428 (Trsp) (b)  
PUBLISH DATE: 2/26/90

REQUEST: FISCAL NOTE

Revision Date:  
Title: An Act relating to the Alaska Marine Highway System  
Sponsor: Duncan  
Requestor: Duncan

Agency Affected: DOT&PF  
BRU: Alaska Marine Highway System  
Components:

FEB 15 1990

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTURAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS:

Prepared by: W. Keith Gerken  
Division: Deputy Commissioner, Operations  
Approved by Commissioner: Mark S. Hickey  
Agency: Department of Transportation and Public Facilities

Phone: 465-3900  
Date: Feb. 14, 1990

Date: 2/14/90

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

Changes in CS SB 428 (trsp) have no fiscal impact. This fiscal note is appropriate.

## BILL ANALYSIS

- \* 1 The total operating and capital needs of the Alaska Marine Highway System will not be changed by this bill. The actual amounts appropriated may change because of the more direct connection between the earnings and funding.
- \* 2 Beginning July 1, 1990 the gross revenue of the Alaska Marine Highway System will be deposited in a special account in the General Fund, the Alaska Marine Highway Fund, instead of the unrestricted General Fund revenue account. We have not depicted this as an expenditure or a revenue reduction since the same level of funds are being collected and they are just being held for use during FY 92. This impact does not occur in any subsequent year and is needed as a one time action to establish a workable fund balance.
- \* 3 The sources of funding used for the appropriations to the Alaska Marine Highway System will change for FY 92. The source will become the Alaska Marine Highway System Fund instead of the General Fund.

FEB 20 1990

(Trsp)

STATE OF ALASKA  
1990 LEGISLATIVE SESSION

Bill Version CS SB 428 (c)  
Publish Date: 2/28/90

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Relating to the Alaska Marine Highway System  
Sponsor: Duncan  
Requestor: Senate Transportation

Agency Affected: Marine Highway System Fund  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CAPITAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>REVENUE</b>	<b>37110.7</b>	<b>38756.4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

FUNDING: (Thousands of Dollars)

GENERAL FUND	(37110.7)	(38756.4)	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	<b>(37110.7)</b>	<b>(38756.4)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

POSITIONS:

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

ANALYSIS: FY 90 fiscal effect is zero. The figures reflect projected total ferry system revenues which would be deposited in the Alaska Marine Highway System Fund, and subsequently available for appropriation, as estimated by DOTPF/Marine Highway System.

Prepared By: Milt Barker MB  
Division: Treasury

Phone: 465-2350  
Date: February 15, 1990

Approved by Commissioner: [Signature]  
Agency: Department of Revenue

Date: 2/28/90

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

2/28/90  
2/28/90

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Department of Revenue  
 Title: Alaska Marine Highway System, BRU: Treasury  
its funding, and budget  
 Sponsor: Duncan Components: \_\_\_\_\_  
 Requestor: Senate Transportation

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: attach a separate page for analysis.

Fiscal year 1990 effect is zero.

Prepared By: Milt Barker MB  
 Division: Treasury

Phone: 465-2350  
 Date: February 15, 1990

Approved by Commissioner: \_\_\_\_\_  
 Agency: Department of Revenue

Date: 2/19/90

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

) Changes in CS SB 428 (trsp)  
 have no fiscal impact.  
 This fiscal note is CM  
 appropriate.

Original sponsor(s): SEN. DUNCAN, Jones

1 IN THE SENATE BY THE TRANSPORTATION COMMITTEE  
2 CS FOR SENATE BILL NO. 428 (Transportation)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska marine highway system,  
7 its funding and its budget; establishing the Alaska  
8 marine highway system fund; and providing for an  
9 effective date."

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

11 \* Section 1. AS 19.65 is amended by adding new sections to read:

12 ARTICLE 2. ALASKA MARINE HIGHWAY SYSTEM FUND AND BUDGET.

13 Sec. 19.65.050. LEGISLATIVE FINDINGS, PURPOSE, AND INTENT. (a)

14 The legislature finds that

15 (1) the Alaska marine highway system is an essential part  
16 of the state transportation system, and that it warrants continued and  
17 predictable state support;

18 (2) many communities' economies are dependent on a steady  
19 and stable marine highway system service level;

20 (3) the state's tourism industry is greatly enhanced by a  
21 dependable marine highway transportation network; and

22 (4) efficient and prudent management of the system will  
23 benefit the state's economy and foster economic development.

24 (b) It is the purpose of AS 19.65.050 - 19.65.100 to

25 (1) enable the Alaska marine highway system to manage and  
26 operate in a manner that will enhance performance and accountability  
27 by allowing the system to account for and spend its generated revenue;

28 (2) provide the management tools necessary to efficiently  
29 operate the Alaska marine highway system;

1           (3) within constitutional constraints, provide for a pre-  
2 dictable funding base for system operations; and

3           (4) provide for predictability and stability in the service  
4 level furnished to communities served by the system.

5           (c) It is the intent of AS 19.65.050 - 19.65.100 to

6           (1) encourage prudent administration through cost manage-  
7 ment and accurate budgeting by managers of the Alaska marine highway  
8 system;

9           (2) increase revenue from the operation of the system  
10 consistent with the public interest, increase service consistent with  
11 sound fiscal policy, and assist the prudent management and operation  
12 of the system;

13           (3) achieve stability in the level of service communities  
14 can anticipate through accurate planning and scheduling; and

15           (4) provide a system that anticipates a predictable funding  
16 base of appropriations of at least \$31,000,000 each year from the  
17 general fund, in addition to gross revenue.

18           Sec. 19.65.060. ALASKA MARINE HIGHWAY SYSTEM FUND. (a) There  
19 is created, as a special account in the general fund, the Alaska  
20 marine highway system fund, into which shall be deposited

21           (1) the gross revenue of the Alaska marine highway system;

22           (2) money that is appropriated to the Alaska marine highway  
23 system fund by the legislature in an amount that is consistent from  
24 year to year and is the amount necessary, after consideration of gross  
25 revenue, to provide stable services to the public consistent with the  
26 provisions of AS 19.65.050(b)(4), which appropriations are not one-  
27 year appropriations and the balances of which do not lapse under  
28 AS 37.25.010; and

29           (3) any other money that is appropriated to the Alaska

1 marine highway system fund by the legislature, which appropriations  
2 are not one-year appropriations and the balances of which do not lapse  
3 under AS 37.25.010.

4 (b) Nothing in this chapter exempts money deposited into the  
5 Alaska marine highway system fund from the requirements of AS 37.07  
6 (Executive Budget Act) or dedicates that money for a specific purpose.

7 Sec. 19.65.070. REVENUE ACCOUNTING. (a) The Alaska marine  
8 highway system shall account for and remit to the Department of Reve-  
9 nue in accordance with AS 37.10.050 all gross revenue generated from  
10 the operation of the Alaska marine highway system during each annual  
11 operating cycle. The money shall then be deposited in the Alaska  
12 marine highway system fund.

13 (b) The Alaska marine highway system shall submit a written  
14 report to the legislature, no later than the 10th day of each regular  
15 legislative session, regarding the previous annual operating cycle.  
16 The report must identify

17 (1) gross revenue generated during the previous annual  
18 operating cycle;

19 (2) gross revenue generated during the current annual  
20 operating cycle and an estimate of gross revenue for the remainder of  
21 the current annual operating cycle;

22 (3) projections of the gross revenue to be generated during  
23 the next annual operating cycle; and

24 (4) the difference between previous gross revenue estimates  
25 prepared under this section and the revenues actually generated.

26 Sec. 19.65.080. ANNUAL APPROPRIATION. (a) Commencing with  
27 appropriations for the fiscal year that begins July 1, 1991, on an  
28 annual basis and under AS 37.07 (Executive Budget Act), the legis-  
29 lature may appropriate amounts from the Alaska marine highway system

1 fund to the Alaska marine highway system.

2 (b) The Department of Transportation and Public Facilities may  
3 request the legislature to appropriate money from the Alaska marine  
4 highway system fund to the marine highway system for capital improve-  
5 ments, if

6 (1) the appropriation under (a) of this section has been  
7 made;

8 (2) the amount in the fund, without regard to the appro-  
9 priation under (a) of this section, exceeds the total of gross revenue  
10 deposited in the fund and the general fund appropriations under  
11 AS 19.65.060(a)(2) by 10 percent; and

12 (3) the amount requested for appropriation under this  
13 subsection does not exceed 50 percent of the balance remaining after  
14 the appropriation for annual management and operations is made under  
15 (a) of this section.

16 (c) The unexpended and unobligated balance of money appropriated  
17 from the Alaska marine highway system fund lapses into the Alaska  
18 marine highway system fund at the end of the fiscal year for which it  
19 was appropriated.

20 Sec. 19.65.100. DEFINITIONS. In AS 19.65.050 - 19.65.100,

21 (1) "annual operating cycle" means the annual state fiscal  
22 year beginning on July 1 and ending at midnight on the following June  
23 30;

24 (2) "gross revenue" means all money, except money refunded  
25 to ticket holders and others for unused services, that is generated  
26 from the operation of the Alaska marine highway system, including that  
27 derived from vessel operations and uses of Alaska marine highway  
28 system facilities.

29 \* Sec. 2. This Act takes effect July 1, 1990.

# Alaska State Legislature



SENATOR JIM DUNCAN

P. O. Box V JUNEAU, ALASKA 99811-3100  
(907) 465-4766

COMMITTEES:  
FINANCE  
VICE CHAIR -  
HEALTH EDUCATION  
& SOCIAL SERVICES  
BUDGET & AUDIT  
BANKING &  
ECONOMIC  
DEVELOPMENT

**TO:** SENATOR RICK UEHLING  
CO-CHAIR  
SENATE FINANCE COMMITTEE

**FROM:** SENATOR JIM DUNCAN

**REGARDS:** HEARING FOR SENATE BILL 428

**DATE:** FEBRUARY 28, 1990

I WOULD APPRECIATE THE EARLIEST POSSIBLE HEARING FOR SENATE BILL 428 WHICH ESTABLISHES THE ALASKA MARINE HIGHWAY SYSTEM FUND.

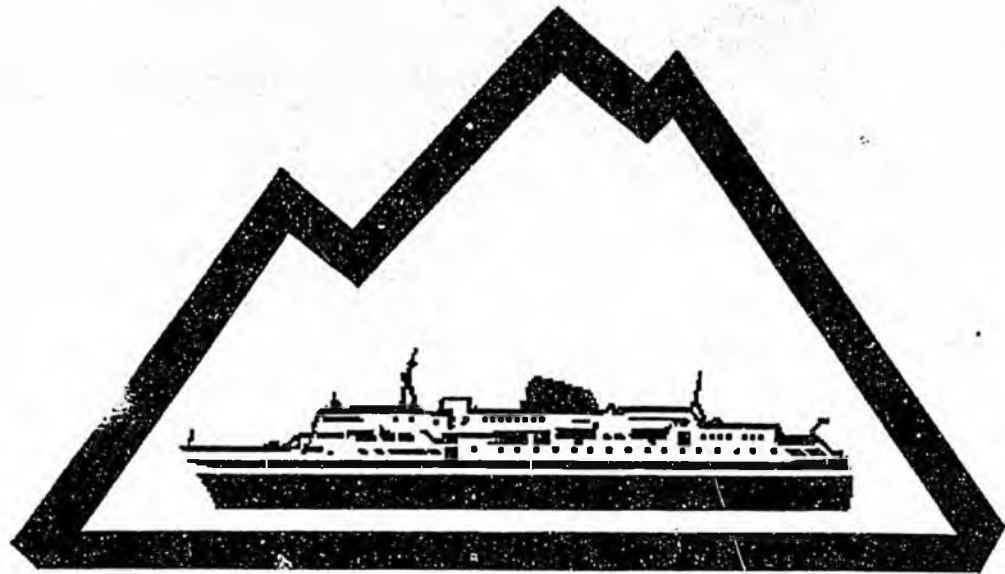
SB 428 AS SPONSORED BY ME WAS IDENTICAL TO HOUSE BILL 439 INTRODUCED JANUARY 24 AT THE REQUEST OF THE GOVERNOR. THE SENATE TRANSPORTATION COMMITTEE MADE TWO MINOR AMENDMENTS. IT IS IMPERATIVE THIS BILL BE ACTED UPON THIS SESSION BY THE ENTIRE LEGISLATURE. IT IS MY HOPE CONCURRENT ACTION BY THE HOUSE AND SENATE WILL ENSURE TIMELY CONSIDERATION OF THIS MEASURE. THE INTENT IS TO ALLOW THE SYSTEM TO USE THE REVENUES IT GENERATES SO IT CAN PROVIDE SERVICE IN A CONSISTENT AND ENHANCED FASHION.

I HAVE ATTACHED A PACKET OF INFORMATION ON THIS PROPOSAL PROVIDED BY THE ADMINISTRATION. IT INCLUDES A COPY OF THE GOVERNOR'S TRANSMITTAL LETTER TO THE HOUSE OF REPRESENTATIVES WHICH OUTLINES HB 439 IN DETAIL. AS POINTED OUT IN THE GOVERNOR'S COMMUNICATION, THE BILL DOES NOT VIOLATE CONSTITUTIONAL PROVISIONS RELATED TO THE PROHIBITION OF DEDICATED FUNDS. THE PROPOSED FUND IS SUBJECT TO ANNUAL APPROPRIATION BY THE LEGISLATURE. THE BILL ESTABLISHES A SPECIAL ACCOUNT IN THE GENERAL FUND FOR FISCAL YEAR 1991 WHICH WOULD BE AVAILABLE FOR USE BY THE ALASKA MARINE HIGHWAY SYSTEM IN FISCAL YEAR 1992.

I HAVE ALSO ATTACHED ZERO FISCAL NOTES FROM THE DEPARTMENTS OF TRANSPORTATION AND PUBLIC FACILITIES, REVENUE AND ADMINISTRATION. THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES' FISCAL NOTE INCLUDES A BILL ANALYSIS. AN ADDITIONAL FISCAL NOTE FROM THE DEPARTMENT OF REVENUE PROJECTS THE AMOUNT OF PROGRAM RECEIPTS FOR DEPOSIT TO THE FUND.

I APPRECIATE YOUR CONSIDERATION OF THIS REQUEST. BILL

File  
SB 428



**ALASKA MARINE HIGHWAY SYSTEM**

**HOUSE BILL 439**

**SENATE BILL 428**

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

January 24, 1990

The Honorable Sam Cotten  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska marine highway system. The bill addresses concerns that all Alaskans share regarding the importance of the ferry system in the state's commerce, the efficient use of the system's resources, and the ability of the system to provide stable or enhanced service to the public.

The Alaska marine highway system has been an administrative unit of the Department of Transportation and Public Facilities since the department's creation in 1977. Before 1977, the marine highway system was a division of the Department of Public Works. However, throughout the system's more than 25 years of life, there have not been specific statutory provisions that set out the expectations that the legislative and executive branches of government, as well as the public, have for the system nor that set out clear goals for the system. One purpose of the attached bill is to address these concerns.

In proposed AS 19.65.050(a) are legislative findings that the marine highway system is a vital link in the state's economic well being, requiring consistent levels of funding and prudent management. The purpose of the bill is set out in proposed AS 19.65.050(b). Under this bill, managers and employees of the system will be provided an incentive and mechanism to manage the system efficiently by allowing it to effectively use its operating revenue, although that revenue is, under other sections of the bill, subject to annual appropriation, and the bill does not violate the Alaska Constitution's art. IX, sec. 7, prohibition of "dedicated funds." Furthermore, the legislature recognizes the need for consistent levels of funding, within constitutional limits, to allow predictable levels of service. The legislative intent for the marine highway system operations is set out in proposed AS 19.65.050(c).

The system's managers are expected to accurately plan, schedule, and budget for the operations of the ferry system. The specific goals stated for the system, among others, are to increase revenue consistent with the public interest and to stabilize levels of service to the communities the system serves.

Proposed AS 19.65.060 creates the Alaska marine highway system fund as a special account in the general fund. The new "fund" is to be the repository of all operating revenue that the system generates, consistent annual general fund appropriations for operations, and whatever additional appropriations the legislature might make to the fund. All money in this fund is subject to annual appropriation. It is not a dedicated fund.

Proposed AS 19.65.070 requires depositing all Alaska marine highway system revenue into the Alaska marine highway system fund. The system managers are also required (1) to report to the legislature all revenue generated during the previous fiscal year, (2) to report the revenue actually generated during the current fiscal year and estimate the revenue that will be generated during the remainder of the current fiscal year, (3) to estimate revenue to be generated during the succeeding fiscal year, and (4) to state the amount of the difference between previous revenue projections and revenue actually generated.

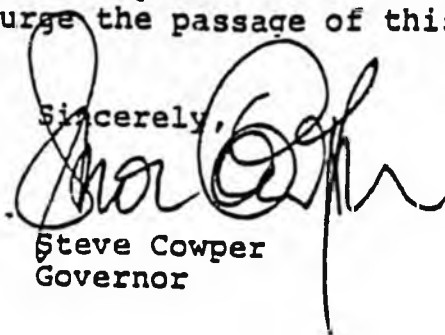
In proposed AS 19.65.080, an annual appropriation mechanism is created for the marine highway system. Under this section, commencing in fiscal year 1992, it is anticipated that the legislature will appropriate money from the Alaska marine highway system fund for the system's annual operations. Furthermore, the bill acknowledges that the legislature has the discretion to appropriate additional money to the system fund (i.e., the special account in the general fund) from the general fund.

This legislation represents a sharp departure from the past. Previously, there has been no articulated role for the marine highway system, and no expression either of commitment by the legislature to maintain service at an adequate level, nor of the need to hold the system's management accountable for decisions that result in what the public perceives as a decline in the level of service.

With this bill, I intend to provide Alaskans with transportation benefits by creating a mechanism that establishes a predictable funding base and allows or encourages management to generate cost savings and increase revenue performance from the operation of the system, with the Alaskan users of the system receiving the direct benefit from those actions. By developing a business

approach, and establishing accountability in a way that is constitutionally valid, we provide management, employees, and users with necessary tools to respond to immediate and long-term challenges facing the Alaska marine highway system. I believe that the ultimate result of the passage of this bill will be a consistent level of funding from the general fund, and consistent and improved levels of service to the public. I therefore urge the passage of this bill.

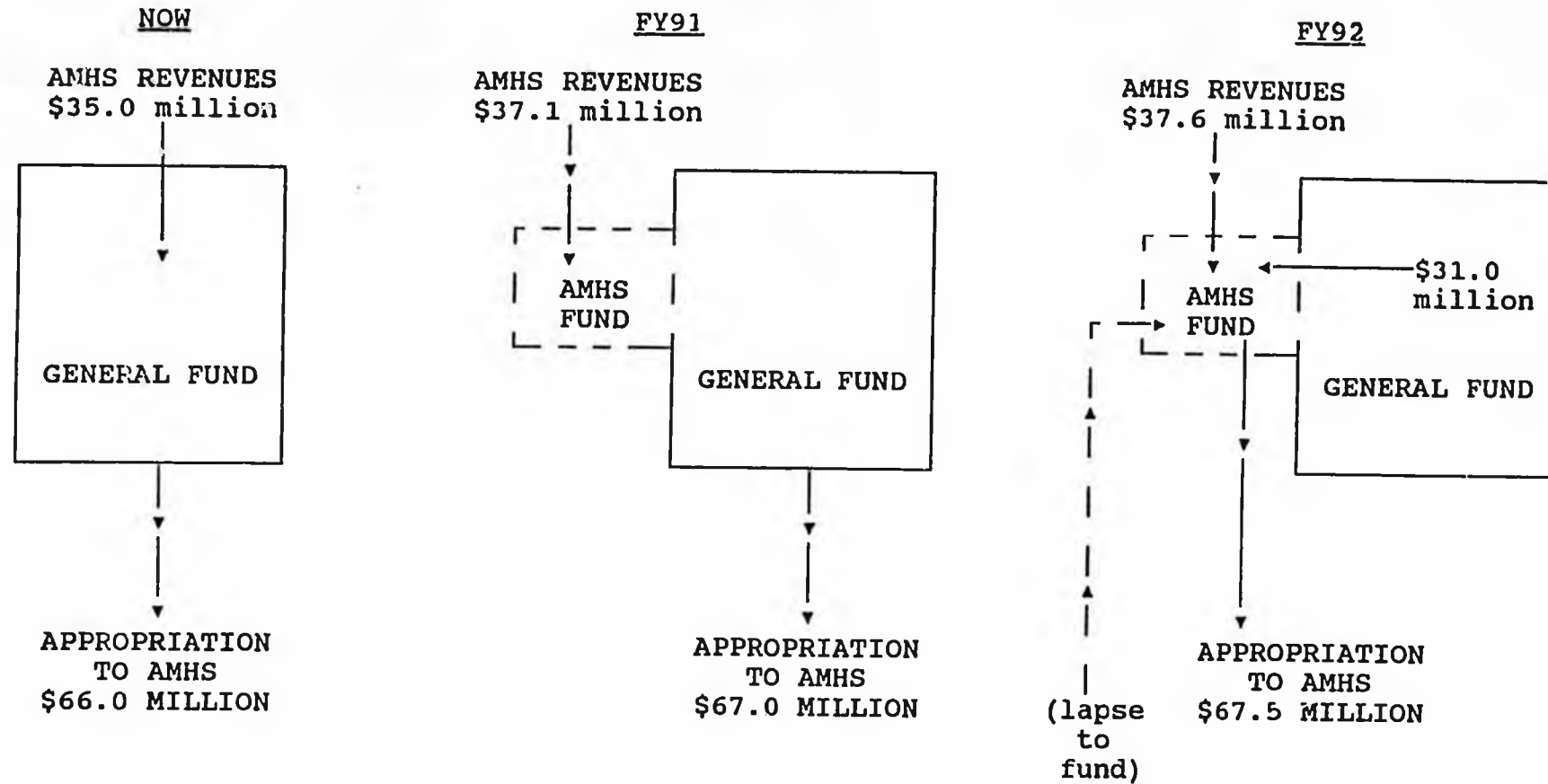
Sincerely,

A handwritten signature in cursive script, appearing to read "Steve Cowper". The signature is written in dark ink and is positioned above the printed name and title.

Steve Cowper  
Governor

DRAFT EXAMPLE

HOUSE BILL 439



**DRAFT EXAMPLE**

**HOUSE BILL 439  
SENATE BILL 428**

**AMHS FUND**

Sec. 19.65.080(b)

**AVAILABLE FOR AMHS OVERHAUL OR OTHER SHIP NEEDS**

**RESERVED FOR EMERGENCIES/SUPPLEMENTAL APPROPRIATIONS**

**100% OPERATING  
LEVEL**

# DRAFT EXAMPLE

ALASKA MARINE HIGHWAY SYSTEM FINANCIAL MODEL

House Bill 439 - Senate Bill 428

Marine Highway Fund

(000s)	FY 89 YR 1	FY 90 YR 2	FY 91 YR 3	FY 92 YR 4	FY 93 YR 5	FY 94 YR 6	FY 95 YR 7	FY 96 YR 8	FY 97 YR 9	FY 98 YR 10	FY 99 YR 11	FY 00 YR 12	FY 01 YR 13	FY 02 YR 14	FY 03 YR 15	FY 04 YR 16	FY 05 YR 17	FY 06 YR 18	FY 07 YR 19	FY 08 YR 20	Total
<b>Revenues<sup>1</sup></b>																					
Passenger Vehicles				13,426	13,829	14,244	14,671	15,111	15,564	16,031	16,512	17,008	17,518	18,043	18,585	19,142	19,717	20,308	20,917	21,545	331,277
Vans				12,634	13,013	13,403	13,805	14,220	14,646	15,086	15,538	16,004	16,484	16,979	17,488	18,015	18,553	19,110	19,683	20,274	311,733
Stewards				2,327	2,397	2,468	2,543	2,619	2,697	2,778	2,862	2,947	3,035	3,127	3,221	3,317	3,417	3,519	3,625	3,734	57,411
				7,923	8,160	8,405	8,657	8,917	9,185	9,460	9,744	10,036	10,337	10,648	10,967	11,298	11,635	11,984	12,343	12,714	198,488
<b>Total Revenues</b>	<b>35,252</b>	<b>35,252</b>	<b>35,252</b>	<b>36,310</b>	<b>37,399</b>	<b>38,521</b>	<b>39,676</b>	<b>40,867</b>	<b>42,093</b>	<b>43,356</b>	<b>44,656</b>	<b>45,996</b>	<b>47,376</b>	<b>48,797</b>	<b>50,261</b>	<b>51,769</b>	<b>53,322</b>	<b>54,921</b>	<b>56,569</b>	<b>58,266</b>	<b>895,910</b>
GF Funding Base	64,843	65,213	65,530	31,000	31,000	31,000	31,000	31,242	31,648	31,900	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	723,484
CIP Funds <sup>2</sup>	1,263	1,269	1,276	1,282	1,288	1,295	1,301	1,308	1,314	1,321	1,328	1,334	1,341	1,348	1,354	1,361	1,368	1,375	1,382	1,389	21,483
AMIS Op Fund				0	0	62	2,332	1,265	0	0	0	0	0	0	0	0	0	0	0	0	3,659
<b>Total Op Bdgt Funding</b>	<b>66,106</b>	<b>66,482</b>	<b>66,814</b>	<b>68,592</b>	<b>69,687</b>	<b>70,878</b>	<b>74,310</b>	<b>74,681</b>	<b>75,055</b>	<b>75,676</b>	<b>76,984</b>	<b>78,330</b>	<b>79,717</b>	<b>81,145</b>	<b>82,615</b>	<b>84,130</b>	<b>85,690</b>	<b>87,296</b>	<b>88,951</b>	<b>90,635</b>	<b>1,543,793</b>
<b>Direct Expenses</b>																					
Taku	8,035	8,075	8,116	8,156	8,197	8,238	8,279	8,320	8,362	8,404	8,446	8,488	8,531	8,573	8,616	8,659	8,702	8,746	8,790	8,834	168,567
Malaspina	9,733	9,782	9,831	9,880	9,929	9,979	10,029	10,079	10,129	10,180	10,231	10,282	10,333	10,385	10,437	10,489	10,542	10,594	10,647	10,700	204,190
Matanuska	10,298	10,349	10,401	10,453	10,506	10,558	10,611	10,664	10,717	10,771	10,825	10,879	10,933	10,988	11,043	11,098	11,153	11,209	11,265	11,322	216,043
Chikotna	359	6	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	371
Columbia	6,638	6,671	6,705	6,738	6,772	6,806	6,840	6,874	6,908	6,943	6,977	7,012	7,047	7,083	7,118	7,154	7,189	7,225	7,262	7,298	139,259
Lecointe	5,838	5,887	5,917	5,946	5,976	6,006	6,036	6,066	6,096	6,127	6,158	6,188	6,219	6,250	6,282	6,313	6,345	6,376	6,408	6,440	122,896
Aurora	5,379	5,406	5,435	5,464	5,493	5,523	5,553	5,582	5,612	5,642	5,672	5,703	5,733	5,764	5,795	5,826	5,857	5,888	5,920	5,951	120,799
Tustumena	5,698	5,726	5,755	5,783	5,812	5,841	5,871	5,900	5,929	5,959	5,989	6,019	6,049	6,079	6,110	6,140	6,171	6,202	6,233	6,264	119,529
Barillett	3,656	3,674	3,692	3,711	3,729	3,748	3,767	3,785	3,804	3,823	3,842	3,862	3,881	3,900	3,920	3,939	3,959	3,979	3,999	4,019	76,689
New vessel #1	0	0	0	0	0	3,062	3,078	3,093	3,109	3,124	3,140	3,156	3,171	3,187	3,203	3,219	3,235	3,251	3,268	3,284	47,581
New vessel #2	0	0	0	0	0	0	3,078	3,093	3,109	3,124	3,140	3,156	3,171	3,187	3,203	3,219	3,235	3,251	3,268	3,284	44,518
<b>Total Direct Exps</b>	<b>55,653</b>	<b>55,976</b>	<b>56,256</b>	<b>56,512</b>	<b>56,814</b>	<b>60,161</b>	<b>63,539</b>	<b>63,857</b>	<b>64,176</b>	<b>64,497</b>	<b>64,820</b>	<b>65,144</b>	<b>65,470</b>	<b>65,797</b>	<b>66,126</b>	<b>66,457</b>	<b>66,789</b>	<b>67,123</b>	<b>67,458</b>	<b>67,796</b>	<b>1,260,441</b>
<b>Indirect Expenses</b>																					
Marine Ops, Indirect	3,981	4,001	4,021	4,041	4,061	4,082	4,102	4,122	4,143	4,164	4,185	4,206	4,227	4,248	4,269	4,290	4,312	4,333	4,355	4,377	83,518
Marine Administration	2,352	2,364	2,376	2,387	2,399	2,411	2,423	2,436	2,448	2,460	2,472	2,485	2,497	2,510	2,522	2,535	2,547	2,560	2,573	2,586	49,343
Marine Facilities CIP <sup>3</sup>	1,263	1,269	1,276	1,282	1,288	1,295	1,301	1,308	1,314	1,321	1,328	1,334	1,341	1,348	1,354	1,361	1,368	1,375	1,382	1,389	26,497
Cust Serv/WFE Mgmt	2,857	2,871	2,886	2,900	2,915	2,929	2,944	2,959	2,973	2,988	3,003	3,018	3,033	3,048	3,064	3,079	3,094	3,110	3,125	3,141	59,937
<b>Total Indirect Exps</b>	<b>10,453</b>	<b>10,505</b>	<b>10,558</b>	<b>10,611</b>	<b>10,664</b>	<b>10,717</b>	<b>10,771</b>	<b>10,824</b>	<b>10,879</b>	<b>10,933</b>	<b>10,988</b>	<b>11,043</b>	<b>11,098</b>	<b>11,153</b>	<b>11,209</b>	<b>11,265</b>	<b>11,321</b>	<b>11,378</b>	<b>11,435</b>	<b>11,492</b>	<b>219,295</b>
<b>Total Operating Exps</b>	<b>66,106</b>	<b>66,482</b>	<b>66,814</b>	<b>67,142</b>	<b>67,478</b>	<b>70,878</b>	<b>74,310</b>	<b>74,681</b>	<b>75,055</b>	<b>75,430</b>	<b>75,807</b>	<b>76,186</b>	<b>76,567</b>	<b>76,950</b>	<b>77,335</b>	<b>77,722</b>	<b>78,110</b>	<b>78,501</b>	<b>78,893</b>	<b>79,288</b>	<b>1,479,735</b>
To AMIS Op Fund > (Funding Less Exps)	0	0	0	1,449	2,209	0	0	0	0	246	1,176	2,144	3,149	4,194	5,280	6,408	7,580	8,796	10,058	11,367	64,058
<b>Capital Expenditures</b>																					
New or Replcmt Vsls	0	0	898	8,975	898	8,975	3,000	0	49,000 <sup>4</sup>	0	0	0	0	3,000	0	49,000	0	0	0	0	123,745
Repr., Refrb, mod <sup>5</sup>	5,132	8,754	6,153	4,028	2,550	14,100	9,034	4,697	29,969 <sup>5</sup>	4,730	5,311	6,366	3,618	4,083	1,441	7,483	3,197	6,617	32,517	9,242	169,024
Shore Facilities	1,050	4,387	7,748	8,990	11,775	4,733	6,870	3,805	4,815	11,856	1,657	2,105	7,350	0	304	2,500	0	100	0	0	80,045
Other CIP and SIP	600	1,000	1,050	1,050	1,050	1,280	1,310	2,050	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	33,390
Debt service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
To Cap Reserve Fund >	0	0	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	2,545	0	2,112	1,266	235	94,158
<b>Total Cap Expendt</b>	<b>6,782</b>	<b>14,140</b>	<b>23,849</b>	<b>31,043</b>	<b>24,273</b>	<b>37,088</b>	<b>28,214</b>	<b>18,552</b>	<b>85,784</b>	<b>26,586</b>	<b>16,968</b>	<b>18,471</b>	<b>20,968</b>	<b>17,083</b>	<b>6,290</b>	<b>60,983</b>	<b>7,309</b>	<b>9,983</b>	<b>34,753</b>	<b>11,242</b>	<b>500,361</b>
<b>Capital Funding Source</b>																					
Federal Funding	5,651	10,722	11,246	18,191	11,526	23,251	15,392	7,122	28,346	12,886	5,761	5,635	5,881	3,254	1,391	7,955	2,547	4,951	24,934	7,087	213,729
Cap Reserve Fund	0	0	0	0	0	0	0	0	48,000	0	0	0	0	0	0	48,000	0	0	0	0	96,000
Liquidtn of Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>GF Capital Requiremnts</b>	<b>1,132</b>	<b>3,419</b>	<b>12,603</b>	<b>12,852</b>	<b>12,746</b>	<b>13,836</b>	<b>12,823</b>	<b>11,430</b>	<b>9,438</b>	<b>13,700</b>	<b>11,207</b>	<b>12,836</b>	<b>15,087</b>	<b>13,830</b>	<b>4,899</b>	<b>5,029</b>	<b>4,761</b>	<b>5,032</b>	<b>9,818</b>	<b>4,155</b>	<b>190,632</b>
<b>Net Cash Flow (Outflow)</b>	<b>(30,723)</b>	<b>(33,379)</b>	<b>(42,889)</b>	<b>(42,403)</b>	<b>(41,537)</b>	<b>(44,898)</b>	<b>(46,155)</b>	<b>(43,937)</b>	<b>(41,086)</b>	<b>(44,453)</b>	<b>(41,030)</b>	<b>(41,692)</b>	<b>(42,938)</b>	<b>(40,635)</b>	<b>(30,619)</b>	<b>(29,620)</b>	<b>(28,182)</b>	<b>(27,236)</b>	<b>(30,761)</b>	<b>(23,788)</b>	<b>(747,961)</b>
<b>Beginning Fund Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,449</b>	<b>3,659</b>	<b>3,597</b>	<b>1,265</b>	<b>0</b>	<b>247</b>	<b>1,423</b>	<b>3,567</b>	<b>6,716</b>	<b>10,911</b>	<b>10,736</b>	<b>11,776</b>	<b>13,468</b>	<b>15,529</b>	<b>17,822</b>	<b>102,164</b>	
Contribution	0	0	0	1,449	2,209	0	0	0	0	246	1,176	2,144	3,149	4,194	5,280	6,408	7,580	8,796	10,058	11,367	64,058
To Cap Reserve Fund >	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5,455	5,368	5,888	6,734	7,765	8,911	40,121
Ending Fund Balance	0	0	0	1,449	3,659	3,597	1,265	0	247	1,423	3,567	6,716	10,911	10,736	11,776	13,468	15,529	17,822	20,278	122,442	
Cap Res Fund Balance	0	0	8,000	16,000	24,000	32,000	40,000	48,000	0	8,000	16,000	24,000	32,000	40,000	48,000	5,368	13,368	21,368	29,368	38,279	443,730

1 Revenue changes are based on combined traffic and fare avg. annual increase of 3%; revenues for FY89-91 not shown since AMIS fund revenue provisions begin in FY92.

2 These are CIP funds in the operating budget.

3 Some refurb projects have been deleted from FY91-97 on the assumption that a vessel replacement project may occur in FY97.

4 If this project is for a replacement vessel rather than a new vessel, no additional operating funds will be required.

5 FY97 "Repr., Refurb, mod" number accumulates some projects from FY90-96 which could not be done in those years due to lack of funding.

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

HB 439

January 24, 1990

The Honorable Sam Cotten  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska marine highway system. The bill addresses concerns that all Alaskans share regarding the importance of the ferry system in the state's commerce, the efficient use of the system's resources, and the ability of the system to provide stable or enhanced service to the public.

The Alaska marine highway system has been an administrative unit of the Department of Transportation and Public Facilities since the department's creation in 1977. Before 1977, the marine highway system was a division of the Department of Public Works. However, throughout the system's more than 25 years of life, there have not been specific statutory provisions that set out the expectations that the legislative and executive branches of government, as well as the public, have for the system nor that set out clear goals for the system. One purpose of the attached bill is to address these concerns.

In proposed AS 19.65.050(a) are legislative findings that the marine highway system is a vital link in the state's economic well being, requiring consistent levels of funding and prudent management. The purpose of the bill is set out in proposed AS 19.65.050(b). Under this bill, managers and employees of the system will be provided an incentive and mechanism to manage the system efficiently by allowing it to effectively use its operating revenue, although that revenue is, under other sections of the bill, subject to annual appropriation, and the bill does not violate the Alaska Constitution's art. IX, sec. 7, prohibition of "dedicated funds." Furthermore, the legislature recognizes the need for consistent levels of funding, within constitutional limits, to allow predictable levels of service. The legislative intent for the marine highway system operations is set out in proposed AS 19.65.050(c).

The system's managers are expected to accurately plan, schedule, and budget for the operations of the ferry system. The specific goals stated for the system, among others, are to increase revenue consistent with the public interest and to stabilize levels of service to the communities the system serves.

Proposed AS 19.65.060 creates the Alaska marine highway system fund as a special account in the general fund. The new "fund" is to be the repository of all operating revenue that the system generates, consistent annual general fund appropriations for operations, and whatever additional appropriations the legislature might make to the fund. All money in this fund is subject to annual appropriation. It is not a dedicated fund.

Proposed AS 19.65.070 requires depositing all Alaska marine highway system revenue into the Alaska marine highway system fund. The system managers are also required (1) to report to the legislature all revenue generated during the previous fiscal year, (2) to report the revenue actually generated during the current fiscal year and estimate the revenue that will be generated during the remainder of the current fiscal year, (3) to estimate revenue to be generated during the succeeding fiscal year, and (4) to state the amount of the difference between previous revenue projections and revenue actually generated.

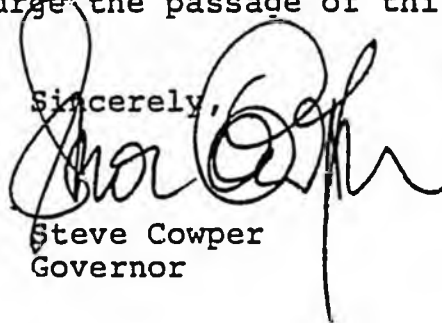
In proposed AS 19.65.080, an annual appropriation mechanism is created for the marine highway system. Under this section, commencing in fiscal year 1992, it is anticipated that the legislature will appropriate money from the Alaska marine highway system fund for the system's annual operations. Furthermore, the bill acknowledges that the legislature has the discretion to appropriate additional money to the system fund (i.e., the special account in the general fund) from the general fund.

This legislation represents a sharp departure from the past. Previously, there has been no articulated role for the marine highway system, and no expression either of commitment by the legislature to maintain service at an adequate level, nor of the need to hold the system's management accountable for decisions that result in what the public perceives as a decline in the level of service.

With this bill, I intend to provide Alaskans with transportation benefits by creating a mechanism that establishes a predictable funding base and allows or encourages management to generate cost savings and increase revenue performance from the operation of the system, with the Alaskan users of the system receiving the direct benefit from those actions. By developing a business

approach, and establishing accountability in a way that is constitutionally valid, we provide management, employees, and users with necessary tools to respond to immediate and long-term challenges facing the Alaska marine highway system. I believe that the ultimate result of the passage of this bill will be a consistent level of funding from the general fund, and consistent and improved levels of service to the public. I therefore urge the passage of this bill.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the word "Sincerely,".

Steve Cowper  
Governor