

ALASKA LEGISLATURE

2375

HOUSE and SENATE FINANCE COMMITTEE FILES, 2001 - 2002

Adopted

WORK DRAFT

WORK DRAFT

WORK DRAFT

22-LS0324.O
Craver
3/5/02

CS FOR SENATE BILL NO. 180()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION**

BY

**Offered:
Referred:**

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act implementing pay differentials based on geographic areas for certain state
2 employees and for members of the Alaska State Defense Force; relating to cost-of-living
3 differentials for state aid to municipalities; and providing for an effective date."

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

5 * **Section 1.** AS 26.05.260(i) is amended to read:

6 (i) When active state service is authorized by the governor or by the adjutant
7 general as the governor's designee, members of the Alaska State Defense Force are
8 entitled to receive, for each day of active service under AS 26.05.070, pay and
9 allowances as provided in this subsection. Pay is equal to that provided under
10 AS 39.27.011 - 39.27.021 [AS 39.27.011 - 39.27.020] for equivalent assignments of
11 state officials or employees, including adjustments under AS 39.27.025, if applicable.
12 Allowances shall be paid to the same extent, in the same manner, and under the same
13 conditions as provided for state officials and employees under AS 39.20.110 -
14 39.20.170. However, pay or allowances are not authorized for training or community

1 service activities of members of the Alaska State Defense Force.

2 * **Sec. 2.** AS 29.60.160(a) is amended to read:

3 (a) Payments to a municipality or other eligible recipient under AS 29.60.110
4 - 29.60.130 shall reflect area cost-of-living differentials. Payments shall be based on
5 the sum of per capita, per mile, and per bed or facility grants due each municipality or
6 other recipient multiplied by the appropriate area cost-of-living differential. The area
7 cost-of-living differential for each recipient shall be determined annually by election
8 district under the provisions of AS 39.27.020 and 39.27.030 [AS 39.27.030].
9 Application of the area cost-of-living differential may not result in distribution of an
10 amount less than the amount of the payment determined without reference to
11 application of this section.

12 * **Sec. 3.** AS 29.60.290(b) is amended to read:

13 (b) The area cost-of-living differential payable to each municipality under this
14 section shall be determined annually by election district under the provisions of
15 AS 39.27.020 and 39.27.030 [AS 39.27.030]. Except as provided in AS 29.60.300,
16 application of the area cost-of-living differential may not result in a payment that is
17 less than the minimum payment determined under (a) of this section. For purposes of
18 this subsection, the election districts used are those designated by the proclamation of
19 reapportionment and redistricting of December 7, 1961, and retained for the house of
20 representatives by proclamation of the governor September 3, 1965.

21 * **Sec. 4.** AS 39.27.020 is amended by adding a new subsection to read:

22 (d) The pay step differentials in this section apply to a person who has been
23 employed by the state at any time through June 30, 2002, whenever that person is
24 employed by the state. A person who begins state employment for the first time on or
25 after July 1, 2002, is subject to AS 39.27.021 whenever that person is employed by the
26 state.

27 * **Sec. 5.** AS 39.27 is amended by adding a new section to read:

28 **Sec. 39.27.021. Pay differentials by election district and in other states**
29 **and countries.** (a) The following pay differentials apply only to state employees
30 beginning state employment for the first time on or after July 1, 2002, and are
31 approved as an amendment to the basic salary schedules provided in AS 39.27.011:

	Percentage Pay Differential	Geographic Areas (Election Districts)
1		
2		
3	0	1, 2, 3, 4, 7, 8, 9, and 10
4	4	16a (Fairbanks South of the Arctic Circle except the duty stations of Tok and Delta Junction)
5		
6		
7	5	5
8	9	11
9	11	6
10	16	16b (the duty stations of Tok and Delta Junction)
11		
12	20	15b (the duty station of Nenana)
13	27	12 and 13
14	30	15a (Yukon-Kuskokwim except the duty station of Nenana) and 19
15		
16	34	18
17	38	14
18	42	16c (Fort Yukon - North of the Arctic Circle) and 17.
19		

(b) The basic salary schedule set out in AS 39.27.011 is amended for positions in other states to provide that those positions shall be compensated using a pay step differential of minus six pay steps.

(c) The director of the division of personnel shall establish salary differentials for positions in foreign countries. The differentials shall be adjusted annually, effective July 1, to maintain equitable relationships between salaries for positions in foreign countries and salaries for positions in Alaska.

* Sec. 6. AS 39.27.030 is amended to read:

Sec. 39.27.030. Cost-of-living survey. Subject to an appropriation for this purpose, the director shall conduct a survey, at least every five years, to review the pay differentials established in AS 39.27.020 and 39.27.021. The survey may address factors, as determined by the director, that are also relevant in review of salary

1 schedules, entitlement for beneficiaries of state programs, and payments for state
2 service providers. The survey must reflect the costs of living in various election
3 districts of the state, and Seattle, Washington, by using the cost of living in Anchorage
4 as a base. [IN THIS SECTION, "ELECTION DISTRICT" HAS THE MEANING
5 GIVEN IN AS 39.27.020(b).]

6 * Sec. 7. AS 39.27.045 is amended to read:

7 **Sec. 39.27.045. Definitions [DEFINITION].** In AS 39.27.020 - 39.27.030,

8 (1) "director" means the director of the division of personnel;

9 (2) "election district" means an election district designated in the
10 governor's proclamation of reapportionment and redistricting of December 7,
11 1961.

12 * Sec. 8. AS 39.35.675(d) is amended to read:

13 (d) In this section, "cost-of-living differential" means an adjustment to salary
14 based on the cost of living in the geographic region where the employee works and
15 includes a pay step differential under AS 39.27.020 or a pay differential under
16 AS 39.27.021.

17 * Sec. 9. AS 44.31.020 is amended to read:

18 **Sec. 44.31.020. Duties of department.** The Department of Labor and
19 Workforce Development shall

20 (1) enforce the laws, and adopt regulations under them concerning
21 employer-employee relationships, including the safety, hours of work, wages, and
22 conditions of workers, including children;

23 (2) accumulate, analyze, and report labor statistics;

24 (3) operate systems of workers' compensation and unemployment
25 insurance;

26 (4) gather data reflecting the cost of living in the various election
27 districts of the state upon request of the director of personnel under AS 39.27.030; in
28 this paragraph, "election district" has the meaning given in AS 39.27.045
29 [AS 39.27.020(b)];

30 (5) operate the federally funded employment and training programs
31 under 29 U.S.C. 1501 - 1792b (Job Training Partnership Act); and

1
2

(6) administer the state's program of adult basic education.

* Sec. 10. This Act takes effect July 1, 2002.



Official Business

Alaska State Senate

Senate Finance Committee

Sponsor Statement

Committee Substitute for Senate Bill 180

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

“An act implementing pay differentials based on geographic areas for certain employees and for members of the Alaska State Defense Force....”

Committee Substitute for Senate Bill 180 changes the manner in which geographic differential payments for cost-of-living differences are determined for state employees who are not union members. This legislation adopts the most current geographic differential report. The current statutory formula has not been updated since June 1976 and unfairly discriminates against some state employees while unfairly benefiting others. All union state employees are already under the new formula. A similar bill was passed by the legislature in 2000 but was vetoed by the governor. This bill does not contain the provisions the governor cited as the reason for his veto of the 2000 bill.

The geographic differential calculation utilizes a percentage above a specific measurement baseline. In Alaska, Anchorage is the only federal measurement of the cost-of-living. Therefore, Anchorage is used as the baseline measurement for determining the cost-of-living in the various Alaska election districts and “out of state” locations. This legislation will affect employees in the executive branch of government in partially exempt service or not covered by union contract, and members of the Alaska State Defense Force whenever they are called to active service.

Committee Substitute for Senate Bill 180 effects employees hired on or after the new effective date. Current employees will remain under AS 39.27.020, even if they leave and return to state employment after AS 39.27.021 goes into effect. The fiscal impact is contingent upon future savings generated by this new legislation.

Committee Substitute for Senate Bill 180 purposely holds harmless other programs that use these statutory sections for calculation of revenue sharing cost-of-living adjustments. It also makes no change to the current differential applicable to state employees who work in another state.

Committee Substitute for Senate Bill 180 will ensure all state employees receive fair pay adjustments based on a new fairer cost-of-living analysis.

This legislation goes into effect July 1, 2002.

DD/mjw

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 12, 2002

SUBJECT: Sectional summary (Work Order No. 22-LS0324\P)
(Compensation for state employees and for members of
the Alaska State Defense Force)

TO: Senator Dave Donley

FROM: Barbara R. Craver *BRC*
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1 amends AS 26.05.260(i) to provide that pay for members of the Alaska State Defense Force when on active state service is to be figured using the "new" geographic differential schedule set out in AS 39.27.021, enacted by bill sec. 5.

Secs. 2 and 3 provide that state aid to municipalities will be figured using the "old" geographic pay differential schedule in AS 39.27.020.

Sec. 4 adds a new subsection to AS 39.27.020 to provide that the "old" schedule continues to apply to past or current state employees, even if they return to state employment at some time after AS 39.27.021 goes into effect. The "new" schedule only applies to a person who first begins to work for the state on or after July 1, 2002.

Sec. 5 enacts a new section setting out another schedule of geographic pay differentials. Instead of providing that the pay differentials will be based on pay steps on the salary schedule (as the current AS 39.27.020 does), the new statute provides for percentage increases, except in the case of employees based outside the state. Positions in other states are to be paid at minus six pay steps. Pay differentials for positions in foreign countries are to be established by the director of personnel.

Sec. 6 contains technical amendments, reflecting the enactment of AS 39.27.021 (the new pay differential schedule) and AS 39.27.045(2), defining "election district."

Sec. 7 moves the definition of "election district" from AS 39.27.020(b) into the definition section of AS 39.27.045.

Senator Dave Donley
March 12, 2002
Page 2

Secs. 8 and 9 are technical corrections to references changed by this bill.

Sec. 10 repeals AS 39.27.020(b), the definition of election district is moved in section 7.

Sec. 11 states that the Act takes effect July 1, 2002.

BRC:med
02-208.med

SB 180-STATE EMPLOYEE PAY DIFFERENTIALS
SENATE FINANCE COMMITTEE

SIGN-IN

NAME: Roxanne Stewart Subject/Bill No: SB 180
Co./Dept./Title: Legislative Liaison Phone: 465-1176
Address: Dept. of Administration Zip: _____
Do you wish to testify? ___ Yes ___ No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? ___ Yes ___ No ___ Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? ___ Yes ___ No ___ Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? ___ Yes ___ No ___ Respond To Questions

SITE: FAIRBANKS LIO

SUBJECT OF MEETING:
SB 180

COMMITTEE:

Senate Finance

DATE: 3/14/2002

UPDATE #: 1



PLEASE SIGN IN

DO YOU WANT

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

TO TESTIFY?
Y or N

Paul Lyle			Y
Email address:			
Pam Hartnell			Y
Email address:			
John Athens			Y
Email address:			
Email address:			
Email address:			
Email address:			

SITE: FAIRBANKS LIO

SUBJECT OF MEETING:

SB 180

COMMITTEE:

Senate Finance

DATE: 3/14/2002

UPDATE #: 1



PLEASE SIGN IN

P R I N T YOUR NAME

DO YOU WANT

ADDRESS (MAILING & ZIP)

REPRESENTING

TO TESTIFY?

Y or N

P R I N T YOUR NAME	DO YOU WANT ADDRESS (MAILING & ZIP)	REPRESENTING	TO TESTIFY? Y or N
Joni Athens			Y
Email address:			
			Y
Email address:			
			Y
Email address:			
Email address:			
Email address:			
Email address:			

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT

APR 17 2001

SENATE FINANCE
COMMITTEE

DATE: April 9, 2001

FURTHER:

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 17 April 01

Finance Committee considered SENATE BILL NO. 180

STATE EMPLOYEE PAY DIFFERENTIALS

"An Act implementing pay differentials based on geographic areas for certain state employees and for members of the Alaska State Defense Force; and providing for an effective date."

and recommends:

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

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

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
Court	4/17/01	94.3		
All (Admin)	4/17/01	(1080)		

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>			✓	
<i>[Signature]</i>			X	
<i>[Signature]</i>			X	
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓		✓	
COCHAIR: <i>[Signature]</i>				

APR 17 2001

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

SB 180

() Publish Date:

Revision Date/Time (Note if correction):

Dept. Affected:

All

Title: "An act implementing pay differentials
based on geographic areas..."

BRU:

All

Component:

Sponsor: Senate Finance

Requester: Senate Finance

Component Number:

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	(108.0)	(208.8)	(270.2)	(329.7)	(390.4)	(446.4)
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	(108.0)	(208.8)	(270.2)	(329.7)	(390.4)	(446.4)

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Misc)	(108.0)	(208.8)	(270.2)	(329.7)	(390.4)	(446.4)
TOTAL	(108.0)	(208.8)	(270.2)	(329.7)	(390.4)	(446.4)

Estimate of any current year (FY2001) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There are 562 positions in the executive branch partially exempt service (PX) or in the classified service not in a bargaining unit (EE). Approximately 103 of those positions will be affected by the bill. Personal services expenditures are reduced by the amount of salary reduction for PX employees in Fairbanks, Nome, Palmer, Kenai, Seward, and Dillingham. Personal services are increased by the geographic differential in Kodiak, Barrow, Bethel, and Kotzebue. All other PX employees salaries are unaffected.

Fiscal note is amount of salary reduction in FY02 and 03, offset by salary schedule rate increases in FY 02 and FY 03 of 2% and 3%.

Prepared by: David Stewart

Phone 465-4431

Division: Division of Personnel

Date/Time April 17, 2001

Approved by: [Signature]
Agency: Department of Administration

Date 4/17/01

For distribution information, call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

BILL NO. SB 180

Revision Date <u>4/17/01</u>	Dept. Affected <u>Alaska Court System</u>
Title <u>Pay differentials based on geographical areas</u>	BRU <u>Alaska Court System</u>
Sponsor <u>Senate Finance Committee</u>	Component <u>Trial Courts</u>
Requester <u>Senate Finance Committee</u>	Component Serial No. <u>768</u>

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	94.3	43.1	(8.1)	(59.3)	(110.5)	(161.7)
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	94.3	43.1	(8.1)	(59.3)	(110.5)	(161.7)

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	94.3	43.1	(8.1)	(59.3)	(110.5)	(161.7)
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	94.3	43.1	(8.1)	(59.3)	(110.5)	(161.7)

Estimate of any current year (FY01) cost: None

POSITIONS

Full-time						
Part-time						
Temporary						

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

See attached fiscal analysis.

REPORTED OUT

APR 17 2001

SENATE FINANCE
COMMITTEE

Prepared by C. S. Christensen III, Deputy Administrative Director
Agency Alaska Court System

Approved by Stephanie J. Cole, Administrative Director
Agency Alaska Court System

Phone 463-4736
Date/Time 4/17/01 8:39 AM
Date 4/17/01

Alaska Court System

Fiscal Analysis

SB 180

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Geographical Cost of Living Increases	\$145,500	\$145,500	\$145,500	\$145,500	\$145,500	\$145,500
Geographical Cost of Living Decreases <i>(assumed rate of turnover 10% a year)</i>	<u>(51,200)</u>	<u>(102,400)</u>	<u>(153,600)</u>	<u>(204,800)</u>	<u>(256,000)</u>	<u>(307,200)</u>
Estimated Fiscal Impact	<u>\$94,300</u>	<u>\$43,100</u>	<u>(\$8,100)</u>	<u>(\$59,300)</u>	<u>(\$110,500)</u>	<u>(\$161,700)</u>



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1152

Sponsor Statement

SB 180

"An act implementing pay differentials based on geographic areas for certain employees and for members of the Alaska State Defense Force...."

Senate Bill 180 changes the manner in which geographic differential payments for cost-of-living differences are determined for certain state employees. This legislation adopts the most current geographic differential report. The current statutory formula has not been updated since June 1976 and unfairly discriminates against some state employees while unfairly benefiting others. A similar bill was passed by the legislature in 2000 but was vetoed by the governor. This bill does not contain the provisions the governor cited as the reason for his veto of the 2000 bill.

Under this legislation current employees' are protected from a decrease in cost-of-living salary adjustment benefits as long as they remain in the same geographic area. However, these employees total pay will not increase until their total pay, including future salary adjustments, exceeds the amount the employee was receiving the day before the cost-of-living adjustment took effect, June 30, 2001.

The geographic differential calculation utilizes a percentage above a specific measurement baseline. In Alaska, Anchorage is the only federal measurement of the cost-of-living. Therefore, Anchorage is used as the baseline measurement for determining the cost-of-living in the various Alaska election districts and "out of state" locations. Previous legislation indicated these measures affect 316 employees in the executive branch of government not covered by union contract. Although there is a small cost in its first year, this legislation can save the State of Alaska an average of approximately \$183,333 per year for the next six years and \$312,000 each year thereafter. The adjustment also affects the compensation paid to members of the Alaska State Defense Force whenever they are called to active state service.

SB 180 purposely holds harmless other programs that use these statutory sections for calculation of revenue sharing cost-of-living adjustments. It also makes no change to the current differential applicable to state employees who work in another state.

Fiscal responsibility continues to be a top priority of the legislative majorities this session. These changes simply implement fair pay adjustments based on a new cost-of-living analysis. Some employees will actually see an increase in cost-of-living adjustments.

DD/bc



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

Sectional Analysis

Senate Bill 180

Section 1 amends AS 26.05.260(I) to provide that pay for members of the Alaska State Defense Force when on active state service is to be figured using the new geographic differential schedule set out in AS 39.27.021, enacted by bill, section 4.

Rational: This section must be tied to the current enabling statute for calculation of the geographic pay differential.

Sections 2 and 3 ensure that state aid to municipalities will continue to be figured using the geographic pay differential statute in effect before this act. (Section 9 of the bill repeals the existing geographic pay differential statute, AS 39.27.020.)

Rational: It is not the intent of this legislation to change the calculation methodology of revenue sharing cost-of-living adjustments.

Section 4 enacts a new section setting out pay differentials. Instead of providing that the pay differentials will be based on pay steps on the salary schedule (as the current AS 39.27.020 does), the new statute provides for percentage increases (or a decrease, in the case of employees based in the Seattle-Tacoma area).

Rational: The current statutory formula has not been updated since June 1976. This change reflects the equalization of cost-of-living changes throughout the State of Alaska and provides for a simplified method of calculation.

Section 5 contains technical amendments reflecting the repeal of AS 39.27.020 and the enactment of AS 39.27.021 (the new pay differential schedule) and AS 39.27.045(2), defining "election district."

Rational: Self-explanatory.

Section 6 moves the definition of "election district" from the repealed AS 39.27.021 into the definition section.

Rational: House keeping to move definition to the appropriate section.

Sections 7 and 8 are technical corrections to provide reference to the pay differential statutes.

Rational: This is needed any time a statute refers to the geographic pay differential statutes.

Section 9 repeals AS 39.27.020.

Rational: Self-explanatory.

Section 10 provides a salary maintenance guarantee for employees whose salaries would be reduced because the pay differential to which they are entitled under AS 39.27.021, enacted by this bill, is less than the pay differential to which they are entitled under AS 39.27.020. The salary of an employee may not be reduced because of the change so long as the employee remains in the same geographic area under AS 39.27.021.

Rational: By freezing an employee's salary at their current level the financial impact to the employee is lessened. Impact to the employer is reduced through lower employee turnover and lawsuits over diminishment of benefits are prevented.

Section 11 states that the Act takes effect July 1, 2001.

Rational: Self-explanatory.

DD/bc



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

Talking Points

SB 180

“An act implementing pay differentials based on geographic areas for certain employees and for members of the Alaska State Defense Force....”

- State employees in many communities receive a cost-of-living adjustment.
- These adjustments are necessary since the cost of living in communities around the state varies so widely.
- The current statutory geographic differential formula has not been updated since June 1976 and unfairly discriminates against some state employees while unfairly benefiting others based on the most current report.
- The geographic differential calculation utilizes a percentage above a specific measurement baseline. In Alaska, Anchorage is the only federal measurement of the cost-of-living. Therefore, Anchorage is used as the baseline measurement for determining the cost-of-living in the various Alaska election districts and “out of state” locations.
- Previous legislation indicated this measure affects 316 employees in the executive branch of government not covered by union contract and can save the State of Alaska approximately \$1.1 million over the next six years.
- While most employees’ geographic differential cost-of-living adjustment will decrease, some employees will actually see an increase in cost-of-living adjustments.
- The legislation protects employee’s whose salaries would be reduced as a result of this change. By freezing an employee’s salary at their current level the financial impact to the employee is lessened. Impact to the state is reduced through lower employee turnover and lawsuits over diminishment of benefits are prevented. The salary of an employee may not be reduced because of the change so long as the employee remains in the same geographic area under AS 39.27.021.
- The adjustment also affects the compensation paid to members of the Alaska State Defense Force whenever they are called to active state service.
- The legislation purposely holds harmless other programs that use these statutory sections for calculation of revenue sharing cost-of-living adjustments. These include programs such as the state aid provided to municipalities for roads, hospitals and health facilities and to volunteer fire departments registered with the state fire marshal.
- The legislation makes no change to the current differential applicable to state employees who work in another state.

Additional Information on SB 180

“An act implementing pay differentials based on geographic areas for certain employees and for members of the Alaska State Defense Force....”

Statutes of existing salary and cost-of-living differential schedules

AS 39.27.011. Salary Schedule.

(a) The following monthly basic salary schedule is approved as the pay plan for classified and partially exempt employees in the executive branch of the state government who are not members of a collective bargaining unit established under the authority of the Public Employment Relations Act and employees of the legislature under AS 24.10 and AS 24.20:

Rge	Step	Step	Step	Step	Step	Step
No.	A	B	C	D	E	F
05	1504	1546	1591	1635	1683	1728
06	1591	1635	1683	1728	1778	1830
07	1683	1728	1778	1830	1887	1945
08	1778	1830	1887	1945	2001	2064
09	1887	1945	2001	2064	2131	2191
10	2001	2064	2131	2191	2258	2327
11	2131	2191	2258	2327	2405	2480
12	2258	2327	2405	2480	2565	2652
13	2405	2480	2565	2652	2745	2845
14	2565	2652	2745	2845	2945	3057
15	2745	2845	2945	3057	3156	3276
16	2945	3057	3156	3276	3394	3516
17	3156	3276	3394	3516	3637	3762
18	3394	3516	3637	3762	3885	4032
19	3637	3762	3885	4032	4155	4310
20	3885	4032	4155	4310	4442	4605

21 4155 4310 4442 4605 4750 4921

22 4442 4605 4750 4921 5084 5270

23 4750 4921 5084 5270 5446 5650

24 5084 5270 5446 5650 5841 6039

25 5446 5650 5841 6039 6262 6497

26 5650 5841 6039 6262 6497 6731

27 5841 6039 6262 6497 6731 6987

28 6039 6262 6497 6731 6987 7230

29 6262 6497 6731 6987 7230 7485

30 6497 6731 6987 7230 7485 7749

(b) [Repealed, Sec. 38 ch 3 SLA 1980].

(c) If a state officer or employee is appointed a deputy department head or a division director and, at the time of appointment, the officer or employee is receiving a salary higher than that set for the position to which appointment has been made, the officer or employee is entitled to continue receiving the higher salary. This subsection does not apply to the salary of a person appointed to a position other than a deputy department head or a division director.

(d) The commissioner of administration shall adopt the regulations required under AS 22.05.140(d), AS 22.07.090(c), AS 22.10.190(d), and AS 22.15.220(e). The regulations relate to the internal management of state agencies and their adoption is not subject to AS 44.62 (Administrative Procedure Act). The regulations shall be published in the Alaska Administrative Register and Code for informational purposes.

(e) Effective July 1, 1996, the amounts set out in the salary schedule contained in (a) of this section are increased by the lesser of

(1) 1.5 percent; or

(2) one-half of the percentage increase in the United States Department of Labor, Bureau of Labor Statistics, consumer price index for all urban consumers for Anchorage, Alaska, from the second half of 1994 to the second half of 1995.

(f) Effective July 1, 1997, the amounts set out in the salary schedule contained in (a) of this section, as increased under (e) of this section, are increased by the lesser of

(1) 1.5 percent; or

(2) one-half of the percentage increase in the United States Department of Labor, Bureau of Labor Statistics, consumer price index for all urban consumers for Anchorage, Alaska, from the second half of 1995 to the second half of 1996.

(g) Effective July 1, 1998, the amounts set out in the salary schedule contained in (a) of this section, as increased under (e) and (f) of this section, are increased by the lesser of

(1) 1.5 percent; or

(2) one-half of the percentage increase in the United States Department of Labor, Bureau of Labor Statistics, consumer price index for all urban consumers for Anchorage, Alaska, from the second half of 1996 to the second half of 1997.

AS 39.27.012. Temporary Salary Schedules.

The director of the division of personnel may establish salary schedules providing lesser amounts than those in the basic salary schedule in order to meet salary limit requirements for receipt and expenditure of federal funds. Salary rates established under authority of this section do not affect the salaries of employees provided for by a collective bargaining agreement negotiated under the authority of AS 23.40.070 - 23.40.260 (Public Employment Relations Act).

AS 39.27.015. Cost-of-Living Adjustments. [Repealed, Sec. 12 Ch 80 SLA 1978].

Repealed or Renumbered

AS 39.27.020. Pay Step Differentials By Election District and in Other States.

(a) The following pay step differentials are approved as an amendment to the basic salary schedules provided in AS 39.27.011:

Election District Pay Steps Above Basic Salary Schedule

1 - 0

2 - 1

3 - 1

4 - 0

5 - 2

6a (excluding Valdez Duty Station) - 4

6b (Valdez Duty Station) - 5

7 - 1

8 - 0

9 - 2

10 - 2

11 - 2

12 - 7

13 - 7

14 - 8

15a (excluding Nenana Duty Station) - 9

15b (Nenana Duty Station) - 8

16a (south of Arctic Circle) - 4

16b (north of Arctic Circle) - 9

17 - 9

18 - 9

19 - 8

In other states minus 6

(b) For purposes of (a) of this section, "election district" means an election district designated in the governor's proclamation of reapportionment and redistricting of December 7, 1961.

(c) The director of the division of personnel shall establish salary differentials for positions in foreign countries. The differentials shall be adjusted annually, effective July 1, to maintain equitable relationships between salaries for positions in foreign countries and salaries for positions in Alaska.

Bill History/Action Display



BILL: SB 180 SHORT TITLE: STATE EMPLOYEE PAY DIFFERENTIALS
 BILL VERSION:
 SPONSOR(S): FINANCE
 CURRENT STATUS: (S) FIN STATUS DATE: 04/09/01

TITLE: "An Act implementing pay differentials based on geographic areas for certain state employees and for members of the Alaska State Defense Force; and providing for an effective date."

[Full Text](#)

No Fiscal Notes Available

[Bill History](#)

Jrn-Date	Jrn-Page	Action
04/09/01		(S) READ THE FIRST TIME - REFERRALS
04/09/01		(S) FIN
04/09/01		(S) REFERRED TO FINANCE

Similar Subject Match or Exact Subject Match

EXECUTIVE BRANCH

JUDGES

LEGISLATURE

MILITARY

PUBLIC EMPLOYEES

SALARIES & ALLOWANCES

WAGES

Bill Root: [Display Bill Root](#)

BASIS HAS BEEN RE-PROGRAMMED THIS YEAR



TO REPORT PROBLEMS WITH BASIS INQUIRY

[Return to Basis Main Menu \(22 Legislature\)](#)

[Return to Legislature Home Page](#)

SB

181

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 181
(S) Publish Date: 4/24/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Small Community Housing Loans BRU AHFC
Component Operations
Sponsor Senate Finance Committee
Requester Senate Finance Committee Component No. 110

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	**	**	**	**	**	**
-------------------------------	-----------	-----------	-----------	-----------	-----------	-----------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type—Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

SB181 would repeal the interest rate for loans under the Housing Assistance Loan Fund set at 1% below the taxable loan rate. The Housing Assistance Loan Fund (HALF) is a revolving loan fund that originates and purchases home loans and building material loans in "small communities," defined as those with a population of 6,500 or less that are not connected by road/rail to Anchorage or Fairbanks and communities of 1,600 or less if connected by road/rail.

As of September 30, 2001, the HALF held assets of \$426,519,000. In FY01, the HALF generated \$20 million in net income

SB181 will affect the ability of residents in small communities to afford the purchase of homes where costs are often higher and lending capital is not readily available. With the loss of this business activity caused by the increase in interest rates, AHFC's net income will be reduced. Calculations by AHFC estimate that a 15% drop in loan volume would be the "break-even" point if the interest rate was increased 1 percent, with a more realistic loss expected to exceed 50% of current loan volume. SB181 will result in a loss of loan volume and net income for AHFC's Housing Assistance Loan Fund.

Prepared by: John Bitney, Legislative Liaison Phone _____
Division: Alaska Housing Finance Corporation Date/Time 1/28/02 12:48 PM
Approved by: Larry Persily, Deputy Commissioner Date 01/28/2002
Agency: Department of Revenue

Amended

HOUSE CS FOR CS FOR SENATE BILL NO. 181(CRA)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE HOUSE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered: 5/10/02
Referred: Finance

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to and increasing the interest rate on that portion of a loan for a single
2 family house or owner-occupied duplex in a small community that exceeds ^{\$250,000} ~~\$300,000~~;
3 relating to the Alaska Housing Finance Corporation's rural assistance loan program
4 and to loans for teacher housing in small communities."

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

6 * Section 1. AS 18.56.420(a) is amended to read:

7 (a) There is created in the corporation, as a revolving loan fund, the housing
8 assistance loan fund consisting of money appropriated to it by the legislature and
9 deposited in it by the corporation, and repayments of principal and interest on loans
10 made or purchased from the assets of the fund. The corporation shall

11 (1) adopt regulations to administer the housing assistance loan fund
12 under AS 18.56.400 - 18.56.600; and

13 (2) subject to appropriation, provide money for a rural assistance loan
14 program to originate, purchase, [OR] participate in the purchase of, or refinance

- 1 (A) small community housing mortgage loans;
 2 (B) loans made for building materials for small community
 3 housing;
 4 (C) loans made for renovations or improvements to small
 5 community housing;
 6 (D) loans made for the construction of owner-occupied small
 7 community housing other than loans to builders or contractors or loans that
 8 compensate an owner for the owner's labor or services in constructing the
 9 owner's own housing.

10 * Sec. 2. AS 18.56.470(a) is amended to read:

11 (a) The interest rate on a mortgage loan originated or purchased in whole or in
 12 part under AS 18.56.420 for small community housing or teacher housing under
 13 AS 18.56.580 is one percent less than the interest rate, as determined under
 14 AS 18.56.098(f)(1) - (4), on a mortgage loan purchased under AS 18.56.098(a) from
 15 the proceeds of the most recent applicable issue of taxable bonds before the
 16 origination or purchase of the mortgage loan originated or purchased under
 17 AS 18.56.420. However, other than a loan for teacher housing under
 18 AS 18.56.580, the interest rate on that portion of a loan for a single-family house
 19 or owner-occupied duplex that exceeds \$300,000 is the same as the interest rate
 20 determined under AS 18.56.098(f)(1) - (14).

21 * Sec. 3. AS 18.56.580 is amended to read:

22 **Sec. 18.56.580. Loans for teacher [NONOWNER OCCUPIED] housing.**
 23 (a) In addition to the powers authorized by AS 18.56.400, the corporation shall
 24 [MAY] adopt regulations under AS 18.56.088 allowing the use of money in the
 25 housing assistance loan fund to make loans for the purchase or development of
 26 teacher [NONOWNER OCCUPIED] housing in small communities. The
 27 regulations must implement the requirements of (b) of this section and establish
 28 other terms and conditions for teacher housing loans, including those relating to
 29 borrower eligibility and the number of loans that may be made to a single
 30 borrower. The corporation may require the borrower to pay costs associated
 31 with a loan.

1 (b) A loan may be made under this section only for teacher housing in
 2 which each unit that is not vacant is occupied by at least one individual who is
 3 employed as a certificated teacher or education professional in a public
 4 elementary or secondary school in a small community. Notwithstanding
 5 AS 18.56.470(a), if, before the loan is entirely repaid, the occupancy requirement
 6 of this subsection is not complied with, the interest rate on the remaining balance
 7 of the loan amount becomes the same as the interest rate determined under
 8 AS 18.56.098(f)(1) - (4) on a mortgage loan purchased under AS 18.56.098(a)
 9 from the proceeds of the most recent applicable issue of taxable bonds before the
 10 loan under this section was made [THE RATE OF INTEREST ON A LOAN
 11 AUTHORIZED BY THIS SECTION MAY NOT EXCEED 10-1/2 PERCENT A
 12 YEAR].

13 (c) The principal amount of loans made for teacher [NONOWNER
 14 OCCUPIED] housing under this section may not exceed 20 percent of the total
 15 principal amount of loans made for small community housing under AS 18.56.400 -
 16 18.56.600.

17 (d) In this section,

18 (1) "development" means the construction of a new residence or the
 19 acquisition, repair, remodeling, rehabilitation, or expansion of an existing residence;

20 (2) "teacher [NONOWNER OCCUPIED] housing" means [A
 21 SINGLE-FAMILY RESIDENCE OR] a multi-family residence [HAVING UP TO
 22 EIGHT DWELLING UNITS AND] that may be nonowner occupied or [IS NOT]
 23 occupied by the owner [; THE CORPORATION MAY MODIFY THIS DEFINITION
 24 IF IT DETERMINES THAT THERE IS A SPECIAL NEED FOR NONOWNER
 25 OCCUPIED HOUSING AND THAT A CHANGE IN THE DEFINITION IS
 26 NECESSARY TO ENABLE THE CORPORATION TO MEET THAT NEED].

Rural HALF Program
Number of Loans by Census Area
1998 - 2002 (To Date)

Amount of Loan (In Thousands)

Census Area or Borough	Community	0 - 99	100 - 109	110 - 119	120 - 129	130 - 139	140 - 149	150 - 159	160 - 169	170 - 179	180 - 189	190 - 199	200 - 210	210 - 219	220 - 229	230 - 239	240 - 249	250 - 259	260 - 269	270 - 279	280 - 289	290 - 299	300 - 309	310 - 319	320 - 329	330 - 339	340 - 349	350+	Total
Prince of Wales - Outer Ketchikan Census Area																													
	Collman Cove	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
	Craig	7	1	5	0	5	3	2	4	2	4	5	0	3	0	0	1	0	0	0	0	0	0	0	0	0	0	1	43
	Hyder	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Klawock	3	0	1	0	2	2	3	2	2	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	16
	Metlakatla	1	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Meyers Chuck	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Thorne Bay	3	0	1	1	0	1	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
	Whale Pass	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
		16	2	7	2	10	6	5	8	5	4	5	0	3	0	1	1	0	0	0	0	0	0	0	0	0	0	1	76
Skagway-Hoonah-Angoon Census Area																													
	Angoon	1	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Gustavus	2	2	0	0	0	0	1	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
	Hoonah	3	1	2	0	0	0	0	0	1	0	1	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	10
	Palmer	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Skagway	11	1	5	3	4	3	6	1	0	0	3	0	0	0	1	0	1	0	0	0	0	0	0	1	0	0	0	40
		17	4	7	4	4	3	7	1	6	0	4	0	0	1	0	2	0	1	0	0	0	0	0	1	0	0	0	62
Southeast Fairbanks Census Area																													
	Delta Junction	26	3	3	1	1	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	36
	Eagle	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Tok	5	2	2	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12
		32	5	5	2	3	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	49
Valdez-Cordova Census Area																													
	Copper Center	6	1	1	0	2	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	13
	Cordova	27	9	7	11	12	8	4	2	0	2	2	1	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	87
	Gakona	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
	Glennallen	5	4	1	3	2	3	0	2	3	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	25
		38	14	10	14	16	13	4	4	4	2	2	2	0	2	1	0	0	0	0	0	0	0	0	1	0	0	0	127
Wade Hampton Census Area																													
	St Marys	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
		2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Wrangell-Petersburg Census Area																													
	Kake	2	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Pelican	9	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11
	Petersburg	24	11	13	17	16	6	7	7	5	5	2	5	2	3	2	1	2	2	0	1	0	2	0	2	0	2	0	135
	Wrangell	19	7	7	10	4	5	1	1	1	3	1	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	61
		54	18	21	27	20	11	9	8	5	6	5	6	3	3	3	1	2	3	0	0	1	0	2	0	2	0	0	210
Yakutat Borough																													
	Yakutat	5	1	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
		5	1	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8
Yukon-Koyukuk Census Area																													
	Fort Yukon	9	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	9
	Galena	10	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11
	Manley Hot Spr	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Mcgrath	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5
	Nenana	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4
		29	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	30
TOTAL		707	210	239	248	223	223	202	178	186	130	127	68	52	63	32	32	17	18	4	12	14	7	12	4	10	5	15	3038



Official Business

Alaska State Senate

Senate Finance Committee

Sponsor Statement

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-11

HOUSE CS FOR CS FOR SENATE BILL NO. 181(CRA)

"An Act relating to and increasing the interest rate on that portion of a loan for a single family house or owner-occupied duplex in a small community that exceeds \$300,000; relating to the Alaska Housing Finance Corporation's rural assistance loan program and to loans for teacher housing in small communities."

This Committee Substitute makes five changes to the AHFC rural housing loan program established by AS18.56.420 and known as the HALF program. The changes are:

- Makes the program available for owner occupied single family or duplex homes but not investment property.
- Limits the subsidized portion of loans to \$300,000.
- Allows AHFC to offer blended rate mortgages; a loan amount in excess of the subsidized portion would be at market rates.
- Adds the option of using this program to refinance other loans
- Allows multi family non-owner occupied housing loans to be subsidized only if the tenants are certificated teachers or other education professionals.

The House Community and Regional Affairs Committee made substantial changes in the measure. The bill as currently written does not fully reflect the Senate Finance Committee's intent. Their intent was to make the following changes:

- *Limit the use of this subsidized loan program to owner occupied homes.*
- *Limit the amount of a subsidized loan to an amount that would accommodate the loan for an "average" home.*

The Senate sent over a bill that had a \$200,000 cap on the amount of the loan that could be subsidized. The bill also had a provision that allowed, for the first time, the use of a "blended" loan. If the loan amount exceeded \$200,000, the amount over \$200,000 could be financed at non-subsidized interest rates. We added this provision at the request of AHFC. Senator Hoffman and Senator Donley agreed to the \$200,000 figure during debate on the Senate floor. The House CRA committee raised this to \$300,000.

During Senate Finance Committee hearings, Senator Hoffman added a section that included the ability of using this subsidized financing program for housing for teachers. The bill permitted multi-family, non-owner occupied homes to be financed by the program as long as certificated teachers are in residence. The CRA bill added other "educational professions".

Following is the balance of the sponsor statement sent to House CRA. It does not reflect the changes made by House CRA.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that also discourages formation and unification of local governments. But that is just what AS18.56.420 (the HALF program) does. The program includes a statutory 1 percent below market interest rate for the Housing Assistance Loan Fund (HALF) program. AS 18.56.420 creates the HALF program to provide housing loans to residents in communities of less than 6,500. AS 18.56.420 currently requires that these loans be made at 1 percent below market rates. This loan program is managed by AHFC. The 1 percent discount on HALF loans costs the state on average over \$40,000 in lost income over the life of one of these loans. The Committee Substitute modifies the program by capping the subsidized portion of the loan. Capping the subsidized portion of the loan amount at \$200,000 will make the program more profitable to AHFC, make more loans available to other borrowers, and will stop the current subsidizing the full cost of higher priced homes.

1. A September 2000 legislative audit concluded that the need for the program has been eliminated through other programs and private entities meeting the needs of homeowners. Testimony before the Senate Finance Committee showed that the program is a vital program in small communities.
2. The Committee Substitute contains provisions that are intended to enhance teacher recruitment in small communities. Subsidized loans can be used to finance multiple-unit housing as long as certificated teachers' are residents.
3. By limiting the subsidized portion of the loans, AHFC should be able earn additional income while still offering a subsidized program to qualified borrowers.
4. Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other less well off Alaskans is unfair discrimination. The Committee Substitute also provides that any loan amount in excess \$200,000 can be offered at market rates.
5. The Committee Substitute also provides for financing of certificated teacher occupied multi-family homes. Loans for multi-family homes that do not have certificated teachers as residents are not eligible for this subsidized program.
6. AHFC have indicated that they have changed their lending regulations so that the program no longer inhibits formation, consolidation and unification of local governments and these changes will further reduce that disincentive.

At Senate Finance Committee hearings held last year and during the past few months indicated that support existed for continuation of this program. Accordingly, this committee substitute was drafted so that the program would continue. The program should also be limited to financing a primary residence or teacher occupied residence. In fiscal years 98 and 99 there were 1,026 HALF-subsidized loans made. During that two-year period the 1 percent subsidized loans were made to 166 borrowers with annual incomes over \$100,000. 74 percent of the loans

made during this period were to borrowers in areas where home construction costs are less than in the Anchorage area. The average price of a home receiving a subsidized loan during this period was \$167,000. During this same period 148 loans were made for amounts above \$200,000. 11 loans were for amounts greater than \$300,000, the highest loan being for \$400,000. The 1 percent subsidy on that \$400,000 loan will cost the state close to \$100,000 in lost income over the life of that loan. In order to eliminate the abuse of residents receiving loans to finance expensive homes, the subsidized loan amounts are capped at \$200,000.

The HALF program was intended to give people a chance at home ownership when they didn't have other options. However, the eligibility requirements need to be tightened up so that those who can afford other programs or are already in low cost construction areas are not eligible. The eligibility requirements included in the Committee Substitute include limiting the loans to owner occupied single family or owner occupied duplex homes. This should continue to provide an attractive loan program while providing more income to the state and AHFC. It's just not good public policy to subsidize a multi unit housing development to increase the owner's profits. Even though no loans have been made for housing units larger than two units, it is good policy to place the prohibition in statute. It is probable that the people building multi unit housing have the income and /or the financial strength to use other non-subsidized programs. A subsidy program is usually reserved for those whose circumstances require it.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that discourages formation and unification of local governments. For these reasons the HALF 1 percent subsidy program should be modified so that high value loans cannot be fully subsidized under this state loan program.

DD/pc

SB

181

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: April 9, 2001

FURTHER:

APR 23 2002

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED IN TO OFFICE: 04/23/02

Finance Committee considered SENATE BILL NO. 181

SMALL COMMUNITY HOUSING LOANS

and recommends:

- be replaced with CS 3B 181 (FIN)
- adopt previous CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:
 same title
 new title
House Bill:
 same title
 technical title
 new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
Revenue	1/29/02	*		

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Linda Green</i>	✓			
<i>Alvin Austin</i>			✓	
<i>W. O. O'Connell</i>	✓			
<i>George Wilbur</i>	✓			
<i>Robert D. Fenwick</i>	✓			
<i>John T. ...</i>			✓	
COCHAIR: <i>James J. ...</i>	✓			
COCHAIR: <i>Patricia Kelly</i>	✓			

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____

Bill Version: SB 181

() Publish Date: _____

Revision Date/Time (Note if correction): SENATE FINANCE
 Title Small Community Housing Loans

Dept. Affected: Revenue

BRU AHFC

Component Operations

Sponsor Senate Finance Committee

Requester Senate Finance Committee

Component No. 110

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	**	**	**	**	**	**
-------------------------------	----	----	----	----	----	----

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
 SB181 would repeal the interest rate for loans under the Housing Assistance Loan Fund set at 1% below the taxable loan rate. The Housing Assistance Loan Fund (HALF) is a revolving loan fund that originates and purchases home loans and building material loans in "small communities," defined as those with a population of 6,500 or less that are not connected by road/rail to Anchorage or Fairbanks and communities of 1,600 or less if connected by road/rail.

 As of September 30, 2001, the HALF held assets of \$426,519,000. In FY01, the HALF generated \$20 million in net income.

 SB181 will affect the ability of residents in small communities to afford the purchase of homes where costs are often higher and lending capital is not readily available. With the loss of this business activity caused by the increase in interest rates, AHFC's net income will be reduced. Calculations by AHFC estimate that a 15% drop in loan volume would be the "break-even" point if the interest rate was increased 1 percent, with a more realistic loss expected to exceed 50% of current loan volume. SB181 will result in a loss of loan volume and net income for AHFC's Housing Assistance Loan Fund.

Prepared by: John Bilney, Legislative Liaison
 Division: Alaska Housing Finance Corporation

 Approved by: Larry Persily, Deputy Commissioner
 Agency: Department of Revenue

Phone: _____
 Date/Time: 1/28/02 12:48 PM
 Date: 01/28/2002

Amendment #4

WORK DRAFT

WORK DRAFT

WORK DRAFT

ADOPTED

22-LS0488\G

Cook
4/23/02

CS FOR SENATE BILL NO. 181()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the use of money from the housing assistance loan fund, to loans for
2 teacher housing in small communities, and to the interest rate on loans originated or
3 purchased by the Alaska Housing Finance Corporation for small community housing;
4 and providing for an effective date."

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

6 * Section 1. AS 18.56.470(a) is amended to read:

7 (a) The interest rate on a mortgage loan originated or purchased in whole or in
8 part under AS 18.56.420 for small community housing is one percent less than the
9 interest rate, as determined under AS 18.56.098(f)(1) - (4), on a mortgage loan
10 purchased under AS 18.56.098(a) from the proceeds of the most recent applicable
11 issue of taxable bonds before the origination or purchase of the mortgage loan
12 originated or purchased under AS 18.56.420. However, under this subsection, the
13 interest rate on that portion of a loan for a single-family house that exceeds the
14 statewide average cost of a single-family house, as determined by the Department

2 or owner occupied duplex
or owner occupied duplex
CSSB 181() duplex

SENATE FINANCE COMMITTEE
 / / 2002 COMMITTEE ACTION

ADOPTED

Bill Number	SB 181		
Amendment	#4		
Motion	Donley delete		
<u>Motion by</u>			
<u>Objection by</u>			
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Leman			
Senator Olson			
Senator Ward			
Senator Wilken			
Senator Austerman			
Senator Green			
Senator Hoffman			
Co-Chair Donley			
Co-Chair Kelly			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>			

insert
 language,
 on page 1
 line 13
 +14

no objection



Official Business

Alaska State Senate

Senate Finance Committee

REPORTED OUT
 APR 23 2002
 SENATE FINANCE COMMITTEE

faxed 6pm 4/23

Mail Stop 3100
 State Capitol
 Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: Tues. 4/23/02 TIME: 6PM

TO: Legal

NUMBER OF PAGES, INCLUDING COVER SHEET: 2

FROM: ROBIN PAUL
 SENATE FINANCE CMTE. ASST. SECRETARY
 PHONE: 465-2618
 FAX: 465-2187

NOTES: Need a FINAL pls.
22-L50488\G-version == CS SB 181 (FIN)
with attached Amendment
incorporated.
Thank you!
Robin

Proof OK'ed by Phil + Jantz 4/24/02

22-LS0488V

CS FOR SENATE BILL NO. 181(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the use of money from the housing assistance loan fund, to loans for
2 teacher housing in small communities, and to the interest rate on loans originated or
3 purchased by the Alaska Housing Finance Corporation for small community housing;
4 and providing for an effective date."

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

6 * Section 1. AS 18.56.470(a) is amended to read:

7 (a) The interest rate on a mortgage loan originated or purchased in whole or in
8 part under AS 18.56.420 for small community housing is one percent less than the
9 interest rate, as determined under AS 18.56.098(f)(1) - (4), on a mortgage loan
10 purchased under AS 18.56.098(a) from the proceeds of the most recent applicable
11 issue of taxable bonds before the origination or purchase of the mortgage loan
12 originated or purchased under AS 18.56.420. However, under this subsection, the
13 interest rate on that portion of a loan for a single-family house or owner occupied
14 duplex that exceeds the statewide average cost of a single-family house or owner

1 occupied duplex, as determined by the Department of Labor and Workforce
 2 Development, is the same as the interest rate determined under
 3 AS 18.56.098(f)(1) - (4).

4 * Sec. 2. AS 18.56.580 is amended to read:

5 **Sec. 18.56.580. Loans for teacher [NONOWNER OCCUPIED] housing.**

6 (a) In addition to the powers authorized by AS 18.56.400, the corporation shall
 7 [MAY] adopt regulations under AS 18.56.088 allowing the use of money in the
 8 housing assistance loan fund to make loans for the purchase or development of
 9 teacher [NONOWNER OCCUPIED] housing in small communities. **The**
 10 regulations must implement the requirements of (b) of this section and establish
 11 other terms and conditions for teacher housing loans, including those relating to
 12 borrower eligibility and the number of loans that may be made to a single
 13 borrower. The corporation may require the borrower to pay costs associated
 14 with a loan.

15 (b) A loan may be made under this section only for teacher housing in
 16 which each unit that is not vacant is occupied by at least one individual who is
 17 employed as a certificated teacher in a public elementary or secondary school in a
 18 small community. Notwithstanding AS 18.56.470(a), if, before the loan is entirely
 19 repaid, the occupancy requirement of this section is not complied with, the
 20 interest rate on the entire original loan amount becomes the same as the interest
 21 rate determined under AS 18.56.098(f)(1) - (4) on a mortgage loan purchased
 22 under AS 18.56.098(a) from the proceeds of the most recent applicable issue of
 23 taxable bonds before the loan under this section was made [THE RATE OF
 24 INTEREST ON A LOAN AUTHORIZED BY THIS SECTION MAY NOT EXCEED
 25 10-1/2 PERCENT A YEAR].

26 (c) The principal amount of loans made for teacher [NONOWNER
 27 OCCUPIED] housing under this section may not exceed 20 percent of the total
 28 principal amount of loans made for small community housing under AS 18.56.400 -
 29 18.56.600.

30 (d) In this section,

31 (1) "development" means the construction of a new residence or the

1 acquisition, repair, remodeling, rehabilitation, or expansion of an existing residence;

2 (2) "teacher [NONOWNER OCCUPIED] housing" means [A
3 SINGLE-FAMILY RESIDENCE OR] a multi-family residence [HAVING UP TO
4 EIGHT DWELLING UNITS AND] that may be nonowner occupied or [IS NOT]
5 occupied by the owner [; THE CORPORATION MAY MODIFY THIS DEFINITION
6 IF IT DETERMINES THAT THERE IS A SPECIAL NEED FOR NONOWNER
7 OCCUPIED HOUSING AND THAT A CHANGE IN THE DEFINITION IS
8 NECESSARY TO ENABLE THE CORPORATION TO MEET THAT NEED].

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

ADOPTED 4/23/02

WORK DRAFT

WORK DRAFT

WORK DRAFT

22-LS0488\G
Cook
4/23/02

CS FOR SENATE BILL NO. 181()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the use of money from the housing assistance loan fund, to loans for
2 teacher housing in small communities, and to the interest rate on loans originated or
3 purchased by the Alaska Housing Finance Corporation for small community housing;
4 and providing for an effective date."

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

6 * Section 1. AS 18.56.470(a) is amended to read:

7 (a) The interest rate on a mortgage loan originated or purchased in whole or in
8 part under AS 18.56.420 for small community housing is one percent less than the
9 interest rate, as determined under AS 18.56.098(f)(1) - (4), on a mortgage loan
10 purchased under AS 18.56.098(a) from the proceeds of the most recent applicable
11 issue of taxable bonds before the origination or purchase of the mortgage loan
12 originated or purchased under AS 18.56.420. However, under this subsection, the
13 interest rate on that portion of a loan for a single-family house that exceeds the
14 statewide average cost of a single-family house, as determined by the Department

1 of Labor and Workforce Development, is the same as the interest rate
2 determined under AS 18.56.098(f)(1) - (4).

3 * Sec. 2. AS 18.56.580 is amended to read:

4 Sec. 18.56.580. Loans for teacher [NONOWNER OCCUPIED] housing.

5 (a) In addition to the powers authorized by AS 18.56.400, the corporation shall
6 [MAY] adopt regulations under AS 18.56.088 allowing the use of money in the
7 housing assistance loan fund to make loans for the purchase or development of
8 teacher [NONOWNER OCCUPIED] housing in small communities. The
9 regulations must im-plement the requirements of (b) of this section and establish
10 other terms and conditions for teacher housing loans, including those relating to
11 borrower eligibility and the number of loans that may be made to a single
12 borrower. The corporation may require the borrower to pay costs associated
13 with a loan.

14 (b) A loan may be made under this section only for teacher housing in
15 which each unit that is not vacant is occupied by at least one individual who is
16 employed as a certificated teacher in a public elementary or secondary school in a
17 small community. Notwithstanding AS 18.56.470(a), if, before the loan is entirely
18 repaid, the occupancy requirement of this subsection is not complied with, the
19 interest rate on the entire original loan amount becomes the same as the interest
20 rate determined under AS 18.56.098(f)(1) - (4) on a mortgage loan purchased
21 under AS 18.56.098(a) from the proceeds of the most recent applicable issue of
22 taxable bonds before the loan under this section was made [THE RATE OF
23 INTEREST ON A LOAN AUTHORIZED BY THIS SECTION MAY NOT EXCEED

24 10-1/2 PERCENT A YEAR].

25 (c) The principal amount of loans made for teacher [NONOWNER
26 OCCUPIED] housing under this section may not exceed 20 percent of the total
27 principal amount of loans made for small community housing under AS 18.56.400 -
28 18.56.600.

29 (d) In this section,

30 (1) "development" means the construction of a new residence or the
31 acquisition, repair, remodeling, rehabilitation, or expansion of an existing residence;

1 (2) "teacher [NONOWNER OCCUPIED] housing" means [A
2 SINGLE-FAMILY RESIDENCE OR] a multi-family residence [HAVING UP TO
3 EIGHT DWELLING UNITS AND] that may be nonowner occupied or [IS NOT]
4 occupied by the owner [; THE CORPORATION MAY MODIFY THIS DEFINITION
5 IF IT DETERMINES THAT THERE IS A SPECIAL NEED FOR NONOWNER
6 OCCUPIED HOUSING AND THAT A CHANGE IN THE DEFINITION IS
7 NECESSARY TO ENABLE THE CORPORATION TO MEET THAT NEED].

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

22-LS0488U
Cook
4/6/02

CS FOR SENATE BILL NO. 181()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to the use of money from the housing assistance loan fund and to the
2 interest rate on loans originated or purchased by the Alaska Housing Finance
3 Corporation for small community housing; and providing for an effective date."

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

5 * Section 1. AS 18.56.440 is amended to read:

6 **Sec. 18.56.440. Limitations on use of housing assistance loan fund.** The
7 corporation may not use the money in the housing assistance loan fund to

8 (1) originate a direct loan or purchase or participate in the purchase of
9 a small community housing mortgage loan that exceeds the limitations on mortgage
10 loans purchased by the Federal National Mortgage Association as to principal amount
11 or loan-to-value ratio;

12 (2) originate a direct loan or purchase or participate in the purchase of
13 a loan made for building materials for small community housing

14 (A) that exceeds \$45,000 or exceeds

1 (i) 80 percent of the appraised value of the work
2 completed on the small community housing for which the loan is made
3 if the small community housing is pledged as collateral for the loan; or

4 (ii) 90 percent of the value of other property that is
5 pledged as security for the loan and that is satisfactory to the
6 corporation as collateral;

7 (B) unless the terms of the loan agreement require inspections
8 and certifications, as required by regulations of the corporation, at the expense
9 of the borrower; and

10 (C) unless the period of time allowed for repayment of the loan
11 is equal to or less than 15 years;

12 (3) originate direct loans or purchase or participate in the purchase of a
13 small community housing mortgage loan that is secured by real property the
14 marketable title to which is shown under AS 18.56.480(b)(2) if the total amount of
15 outstanding small community housing mortgage loans held by the corporation exceeds
16 10 times the amount of money in the restricted title loss reserve account established by
17 AS 18.56.490;

18 (4) originate a direct loan for small community housing or purchase or
19 participate in the purchase of a small community housing mortgage loan, other than a
20 loan for the repair, remodeling, rehabilitation, or expansion of an existing owner-
21 occupied residence, if the borrower has an outstanding housing loan made under a
22 state loan program, other than a loan for nonowner-occupied housing under former
23 AS 18.56.580 or under former AS 44.47.520, that bears interest at a rate that was less
24 than the prevailing market interest rate for similar housing loans at the time the loan
25 was made;

26 (5) [ORIGINATE A DIRECT MORTGAGE LOAN OR PURCHASE
27 OR PARTICIPATE IN THE PURCHASE OF A MORTGAGE LOAN FOR
28 RENTAL HOUSING UNLESS THE BORROWER AGREES NOT TO
29 DISCRIMINATE AGAINST TENANTS OR PROSPECTIVE TENANTS BECAUSE
30 OF SEX, MARITAL STATUS, CHANGES IN MARITAL STATUS, PREGNANCY,
31 PARENTHOOD, RACE, RELIGION, COLOR, NATIONAL ORIGIN, OR STATUS

1 AS A STUDENT;

2 (6)] originate, purchase, or participate in a loan to a person who has a
3 past due child support obligation established by court order or by the child support
4 enforcement division under AS 25.27.160 - 25.27.220 at the time of application.

5 * Sec. 2. AS 18.56.470(a) is amended to read:

6 (a) The interest rate on a mortgage loan originated or purchased in whole or in
7 part under AS 18.56.420 for small community housing is one percent less than the
8 interest rate, as determined under AS 18.56.098(f)(1) - (4), on a mortgage loan
9 purchased under AS 18.56.098(a) from the proceeds of the most recent applicable
10 issue of taxable bonds before the origination or purchase of the mortgage loan
11 originated or purchased under AS 18.56.420. However, under this subsection, the
12 interest rate on that portion of a loan for a single-family house that exceeds the
13 statewide average cost of a single-family house, as determined by the Department
14 of Labor and Workforce Development, is the same as the interest rate
15 determined under AS 18.56.098(f)(1) - (4).

16 * Sec. 3. AS 18.56.580 is repealed.

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

ADOPTED 3/21/02

22-LS0488\W
Cook
3/19/02

CS FOR SENATE BILL NO. 181()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the use of money from the housing assistance loan fund in the
2 Alaska Housing Finance Corporation, preventing use of that money for a single-family
3 owner-occupied house with a value that exceeds \$250,000, adjusted for inflation, and
4 repealing a provision authorizing use of that money for nonowner-occupied housing;
5 repealing the home ownership assistance fund; and providing for an effective date."

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

7 * Section 1. AS 18.56.440 is amended to read:

8 Sec. 18.56.440. Limitations on use of housing assistance loan fund. The
9 corporation may not use the money in the housing assistance loan fund to

10 (1) originate a direct loan or purchase or participate in the purchase of
11 a small community housing mortgage loan that exceeds the limitations on mortgage
12 loans purchased by the Federal National Mortgage Association as to principal amount
13 or loan-to-value ratio;

1 (2) originate a direct loan or purchase or participate in the purchase of
2 a loan made for building materials for small community housing

3 (A) that exceeds \$45,000 or exceeds

4 (i) 80 percent of the appraised value of the work
5 completed on the small community housing for which the loan is made
6 if the small community housing is pledged as collateral for the loan; or

7 (ii) 90 percent of the value of other property that is
8 pledged as security for the loan and that is satisfactory to the
9 corporation as collateral;

10 (B) unless the terms of the loan agreement require inspections
11 and certifications, as required by regulations of the corporation, at the expense
12 of the borrower; and

13 (C) unless the period of time allowed for repayment of the loan
14 is equal to or less than 15 years;

15 (3) originate direct loans or purchase or participate in the purchase of a
16 small community housing mortgage loan that is secured by real property the
17 marketable title to which is shown under AS 18.56.480(b)(2) if the total amount of
18 outstanding small community housing mortgage loans held by the corporation exceeds
19 10 times the amount of money in the restricted title loss reserve account established by
20 AS 18.56.490;

21 (4) originate a direct loan for small community housing or purchase or
22 participate in the purchase of a small community housing mortgage loan, other than a
23 loan for the repair, remodeling, rehabilitation, or expansion of an existing owner-
24 occupied residence, if the borrower has an outstanding housing loan made under a
25 state loan program, other than a loan for nonowner-occupied housing under former
26 AS 18.56.580 or under former AS 44.47.520, that bears interest at a rate that was less
27 than the prevailing market interest rate for similar housing loans at the time the loan
28 was made;

29 (5) originate a direct mortgage loan or purchase or participate in the
30 purchase of a mortgage loan for a single-family owner-occupied house with a value
31 that exceeds an amount equal to \$250,000 adjusted to accommodate the effect of

1 inflation that occurs after 2002 [RENTAL HOUSING UNLESS THE BORROWER
2 AGREES NOT TO DISCRIMINATE AGAINST TENANTS OR PROSPECTIVE
3 TENANTS BECAUSE OF SEX, MARITAL STATUS, CHANGES IN MARITAL
4 STATUS, PREGNANCY, PARENTHOOD, RACE, RELIGION, COLOR,
5 NATIONAL ORIGIN, OR STATUS AS A STUDENT];

6 (6) originate, purchase, or participate in a loan to a person who has a
7 past due child support obligation established by court order or by the child support
8 enforcement division under AS 25.27.160 - 25.27.220 at the time of application;

9 (7) originate, purchase, or participate in a loan to a person who is
10 in a family whose income is greater than 400 percent of the level set under the
11 federal poverty guidelines for Alaska set by the United States Department of
12 Health and Human Services.

13 * Sec. 2. AS 18.56.430 and 18.56.580 are repealed.

14 * Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to
15 read:

16 TRANSITION. The balance in the home ownership assistance fund on the effective
17 date of this Act is transferred to the general fund.

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

22-LS0488R
Cook
1/30/02

CS FOR SENATE BILL NO. 181()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to the use of money from the housing assistance loan fund; limiting
2 certain loans of the Alaska Housing Finance Corporation to areas in which the average
3 cost of living is equal to or greater than 125 percent of the statewide average; repealing
4 the home ownership assistance fund; and providing for an effective date."

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

6 * Section 1. AS 18.56.440 is amended to read:

7 **Sec. 18.56.440. Limitations on use of housing assistance loan fund.** The
8 corporation may not use the money in the housing assistance loan fund to

9 (1) originate a direct loan or purchase or participate in the purchase of
10 a small community housing mortgage loan that exceeds the limitations on mortgage
11 loans purchased by the Federal National Mortgage Association as to principal amount
12 or loan-to-value ratio;

13 (2) originate a direct loan or purchase or participate in the purchase of
14 a loan made for building materials for small community housing

1 (A) that exceeds \$45,000 or exceeds

2 (i) 80 percent of the appraised value of the work
3 completed on the small community housing for which the loan is made
4 if the small community housing is pledged as collateral for the loan; or

5 (ii) 90 percent of the value of other property that is
6 pledged as security for the loan and that is satisfactory to the
7 corporation as collateral;

8 (B) unless the terms of the loan agreement require inspections
9 and certifications, as required by regulations of the corporation, at the expense
10 of the borrower; and

11 (C) unless the period of time allowed for repayment of the loan
12 is equal to or less than 15 years;

13 (3) originate direct loans or purchase or participate in the purchase of a
14 small community housing mortgage loan that is secured by real property the
15 marketable title to which is shown under AS 18.56.480(b)(2) if the total amount of
16 outstanding small community housing mortgage loans held by the corporation exceeds
17 10 times the amount of money in the restricted title loss reserve account established by
18 AS 18.56.490;

19 (4) originate a direct loan for small community housing or purchase or
20 participate in the purchase of a small community housing mortgage loan, other than a
21 loan for the repair, remodeling, rehabilitation, or expansion of an existing owner-
22 occupied residence, if the borrower has an outstanding housing loan made under a
23 state loan program, other than a loan for nonowner-occupied housing under former
24 AS 18.56.590 or under former AS 44.47.520, that bears interest at a rate that was less
25 than the prevailing market interest rate for similar housing loans at the time the loan
26 was made;

27 (5) originate a direct mortgage loan or purchase or participate in the
28 purchase of a mortgage loan for a single-family house that exceeds the statewide
29 average value of a single-family house or for an owner-occupied duplex that
30 exceeds the statewide average value of an owner-occupied duplex [RENTAL
31 HOUSING UNLESS THE BORROWER AGREES NOT TO DISCRIMINATE

1 AGAINST TENANTS OR PROSPECTIVE TENANTS BECAUSE OF SEX.
2 MARITAL STATUS, CHANGES IN MARITAL STATUS, PREGNANCY,
3 PARENTHOOD, RACE, RELIGION, COLOR, NATIONAL ORIGIN, OR STATUS
4 AS A STUDENT];

5 (6) originate, purchase, or participate in a loan to a person who has a
6 past due child support obligation established by court order or by the child support
7 enforcement division under AS 25.27.160 - 25.27.220 at the time of application;

8 (7) originate, purchase, or participate in a loan to a person who is
9 in a family whose income is greater than 200 percent of the level set under the
10 federal poverty guidelines for Alaska set by the United States Department of
11 Health and Human Services.

12 * Sec. 2. AS 18.56.440 is amended by adding a new subsection to read:

13 (b) The corporation may use the money in the housing assistance loan fund
14 only to provide housing assistance in a small community in which the average cost of
15 living is equal to or greater than 125 percent of the statewide average cost of living as
16 adjusted by application of the percentage change represented by the pay step
17 differentials under AS 39.27.020 for the location of the small community, as
18 determined by the corporation.

19 * Sec. 3. AS 18.56.430 and 18.56.580 are repealed.

20 * Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to
21 read:

22 TRANSITION. The balance in the home ownership assistance fund on the effective
23 date of this Act is transferred to the general fund.

24 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

adopted

WORK DRAFT

WORK DRAFT

WORK DRAFT

22-LS0488VS
Cook
4/25/01

CS , OR SENATE BILL NO. 181(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act prohibiting the Alaska Housing Finance Corporation from using money in the
2 housing assistance loan fund to subsidize an amount that exceeds \$100,000 and limiting
3 certain loans of the corporation to areas in which the average cost of living is equal to or
4 greater than 125 percent of the statewide average."

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

6 * Section 1. AS 18.56.440 is amended to read:

7 **Sec. 18.56.440. Limitations on use of housing assistance loan fund.** The
8 corporation may not use the money in the housing assistance loan fund to subsidize
9 an amount that exceeds \$100,000 or to

10 (1) originate a direct loan or purchase or participate in the purchase of
11 a small community housing mortgage loan that exceeds the limitations on mortgage
12 loans purchased by the Federal National Mortgage Association as to principal amount
13 or loan-to-value ratio;

14 (2) originate a direct loan or purchase or participate in the purchase of

1 a loan made for building materials for small community housing

2 (A) that exceeds \$45,000 or exceeds

3 (i) 80 percent of the appraised value of the work
4 completed on the small community housing for which the loan is made
5 if the small community housing is pledged as collateral for the loan; or

6 (ii) 90 percent of the value of other property that is
7 pledged as security for the loan and that is satisfactory to the
8 corporation as collateral;

9 (B) unless the terms of the loan agreement require inspections
10 and certifications, as required by regulations of the corporation, at the expense
11 of the borrower; and

12 (C) unless the period of time allowed for repayment of the loan
13 is equal to or less than 15 years;

14 (3) originate direct loans or purchase or participate in the purchase of a
15 small community housing mortgage loan that is secured by real property the
16 marketable title to which is shown under AS 18.56.480(b)(2) if the total amount of
17 outstanding small community housing mortgage loans held by the corporation exceeds
18 10 times the amount of money in the restricted title loss reserve account established by
19 AS 18.56.490;

20 (4) originate a direct loan for small community housing or purchase or
21 participate in the purchase of a small community housing mortgage loan, other than a
22 loan for the repair, remodeling, rehabilitation, or expansion of an existing owner-
23 occupied residence, if the borrower has an outstanding housing loan made under a
24 state loan program, other than a loan for nonowner-occupied housing under
25 AS 18.56.580 or under former AS 44.47.520, that bears interest at a rate that was less
26 than the prevailing market interest rate for similar housing loans at the time the loan
27 was made;

28 (5) originate a direct mortgage loan or purchase or participate in the
29 purchase of a mortgage loan for rental housing unless the borrower agrees not to
30 discriminate against tenants or prospective tenants because of sex, marital status,
31 changes in marital status, pregnancy, parenthood, race, religion, color, national origin,

1 or status as a student;

2 (6) originate, purchase, or participate in a loan to a person who has a
3 past due child support obligation established by court order or by the child support
4 enforcement division under AS 25.27.160 - 25.27.220 at the time of application.

5 * **Sec. 2.** AS 18.56.440 is amended by adding a new subsection to read:

6 (b) The corporation may use the money in the housing assistance loan fund
7 only to provide housing assistance in a small community in which the average cost of
8 living is equal to or greater than 125 percent of the statewide average cost of living as
9 adjusted by application of the percentage change represented by the pay step
10 differentials under AS 39.27.020 for the location of the small community, as
11 determined by the corporation.

SENATE FINANCE COMMITTEE

~~2000~~ COMMITTEE ACTION

4/25/01

Bill Number	SB 181		
Amendment	CS "S"		
Motion	adopt as Workdraft		
<u>Motion by</u>	D		
<u>Objection by</u>	H		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Ward			
Senator Wilken			
Senator Austerman			
Senator Green			
Senator Hoffman			
Senator Leman			
Senator Olson			
Co-Chair Donley			
Co-Chair Kelly			
<u>Tally</u>			
Yea			
Nay			
Absent			
MOTION	PASS		

SENATE FINANCE
COMMITTEE
Amendment Number: #2
Bill Number: SB 181
Sponsor: Donley Date: 3/21/02
Logged In By: J. Mindy

ADOPTED

22-LS0488\W.1
Cook
3/20/02

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR DONLEY

TO: CSSB 181(), Draft Version "W"

1 Page 1, line 1, following "Act":

2 Insert "relating to the Alaska Housing Finance Corporation's rural assistance
3 loan program;"

4

5 Page 1, following line 6:

6 Insert a new bill section to read:

7 **** Section 1.** AS 18.56.420(a) is amended to read:

8 (a) There is created in the corporation, as a revolving loan fund, the housing
9 assistance loan fund consisting of money appropriated to it by the legislature and
10 deposited in it by the corporation, and repayments of principal and interest on loans
11 made or purchased from the assets of the fund. The corporation shall

12 (1) adopt regulations to administer the housing assistance loan fund
13 under AS 18.56.400 - 18.56.600; and

14 (2) subject to appropriation, provide money for a rural assistance loan
15 program to originate, purchase, [OR] participate in the purchase of, or refinance

16 (A) small community housing mortgage loans;

17 (B) loans made for building materials for small community
18 housing;

19 (C) loans made for renovations or improvements to small
20 community housing;

21 (D) loans made for the construction of owner-occupied small
22 community housing other than loans to builders or contractors or loans that
23 compensate an owner for the owner's labor or services in constructing the
24 owner's own housing. "

- 1 Page 1, line 7:
- 2 Delete "* Section 1."
- 3 Insert "* Sec. 2."
- 4
- 5 Renumber the following bill sections accordingly.

SENATE FINANCE
COMMITTEE #1
Amendment Number: #1
Bill Number: SB 181
Sponsor: Donley Date: 3/21/02
Logged In By: Mindy

22-LS0488\W.2
Cook
3/20/02

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR DONLEY

TO: CSSB 181(), Draft Version "W"

- 1 Page 1, line 5:
- 2 Delete "repealing the home ownership assistance fund;"
- 3
- 4 Page 3, line 13:
- 5 Delete "AS 18.56.430 and 18.56.580 are"
- 6 Insert "AS 18.56.580 is"
- 7
- 8 Page 3, lines 14 - 17:
- 9 Delete all material.
- 10
- 11 Renumber the following bill section accordingly.

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR DONLEY

TO: AMENDMENT TO CSSB 181(), Draft Version "U"

1 The amendment previously adopted by the committee is amended by adding a new bill
2 section to read:

3 ** Sec. 4. AS 18.56.580 is amended by adding a new subsection to read:

4 "(e) A loan may be made under this section only for multi-family housing in
5 which each unit that is not vacant is occupied by at least one individual who is
6 employed as a certificated teacher in a public elementary or secondary school in a
7 small community. Notwithstanding AS 18.56.470(a), if, before the loan is entirely
8 repaid, the occupancy requirement of this subsection is not complied with, the interest
9 rate on the entire original loan amount becomes the same as the interest rate
10 determined under AS 18.56.098(f)(1) - (4) on a mortgage loan purchased under
11 AS 18.56.098(a) from the proceeds of the most recent applicable issue of taxable
12 bonds before the loan under this section was made."

13
14 Renumber the following bill section accordingly.

15
16 The legal services division is directed to change "certified teacher" to
17 "certificated teacher" in the amendment and to make all drafting changes necessary to
18 clarify and conform the amendment as amended to requirements of the "Manual of
19 Legislative Drafting".

Sectional Analysis

Committee Substitute Senate Bill 181

Sec. 1 Deletes AS 18.56.440(5). This change eliminates financing rental housing with this subsidized program.

Rationale: It is not good public policy to subsidize loans on non-owner occupied housing.

Sec.2 AS 18.56.470 (a) is amended so that the subsidized portion of the loan is limited to an amount equal to the statewide average cost of a single-family home. Should the loan amount exceed the statewide average cost of a single-family home, the interest rate on the excess amount would carry the market (not-subsidized) rate.

Rationale: This change allows the financing of the "average priced" home with the subsidized loan program and permits the borrower to finance a higher amount at market interest rates. This blended rate concept was suggested as an alternative to the original bill by AIIFC.

Sec.3 Deletes AS 18.56.580. This change is a companion to section 1 above. It eliminates the section on "Loans for non-owner occupied housing".

Rationale: Non-owner occupied homes which are investments should not be eligible for this subsidized loan program.



Official Business

Alaska State Senate

Senate Finance Committee

Sponsor Statement

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1117

Senate Bill 181

“An Act relating to the use of money from the housing assistance loan fund and to the interest rate on loans originated or purchased by the Alaska Housing Finance Corporation for small community housing; and providing for an effective date”

This Committee Substitute makes two changes to the AHFC rural housing loan program established by AS18.56.420 and known as the HALF program. The changes are to:

- Make the program only available for owner occupied single family or duplex homes and not investment properties.
- Limits the subsidized portion of loans to no more than the statewide average for the cost of a house.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that discourages formation and unification of local governments. But that is just what AS18.56.420 (the HALF program) does. The program includes a statutory 1 percent below market interest rate for the Housing Assistance Loan Fund (HALF) program. AS 18.56.420 creates the HALF program to provide housing loans to residents in communities of less than 6,500. AS 18.56.420 currently requires that these loans be made at 1 percent below market rates. This loan program is managed by AHFC. The 1 percent discount on HALF loans costs the state on average over \$40,000 in lost income over the life of one of these loans. The Committee Substitute modifies the program by **capping the subsidized portion of the loan**. Capping the subsidized portion of the loan amount at the statewide average cost of a single family home will make the program more profitable to AHFC, make more loans available to other borrowers, and will stop the current subsidizing of the full cost of higher than average cost homes.

1. A September 2000 legislative audit concluded that the need for the program has been eliminated through other programs and private entities meeting the needs of homeowners.
2. By limiting the subsidized portion of the loans, AHFC should be able earn additional income while still offering a subsidized program to qualified borrowers.
3. Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other less well off Alaskans is unfair discrimination. The Committee Substitute also provides that any loan amount in excess of the average statewide cost of a single-family home can be offered at market rates.

4. AHFC have indicated that they have changed their lending regulations so that the program no longer inhibits formation, consolidation and unification of local governments and these changes will further reduce that disincentive.

At Senate Finance Committee hearings held last April support existed for continuation of this program. Accordingly, this committee substitute was drafted so that the program could continue. The program should also be limited to financing a primary residence. In fiscal years 98 and 99 there were 1,026 HALF-subsidized loans made. During that two-year period the 1 percent subsidized loans were made to 166 borrowers with annual incomes over \$100,000. 74 percent of the loans made during this period were to borrowers in areas where home construction costs are less than in the Anchorage area. The average price of a home receiving a subsidized loan during this period was \$167,000. During this same period 148 loans were made for amounts above \$200,000. 11 loans were for amounts greater than \$300,000, the highest loan being for \$400,000. The 1 percent subsidy on that \$400,000 loan will cost the state close to \$100,000 in lost income over the life of that loan. In order to eliminate the abuse of residents receiving loans to finance expensive homes, the subsidized loan amounts are capped at the current state wide average sales price of a single family home, which for 3Q 2001 was \$187,000.

The HALF program was intended to give people a chance at home ownership when they didn't have other options. However, the eligibility requirements need to be tightened up so that those who can afford other programs or are already in low cost construction areas are not eligible. The eligibility requirements included in the Committee Substitute include limiting the loans to owner occupied single family or owner occupied duplex homes. This should continue to provide an attractive loan program while providing more income to the state and AHFC. It's just not good public policy to subsidize a multi unit housing development to increase the owner's profits. Even though no loans have been made for housing units larger than two units, it is good policy to place the prohibition in statute. It is probable that the people building multi unit housing have the income and /or the financial strength to use other non-subsidized programs. A subsidy program is usually reserved for those whose circumstances require it.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that discourages formation and unification of local governments. For these reasons the HALF 1 percent subsidy program should be modified so that high value loans cannot be fully subsidized under this state loan program.

DD/pc

All loans that would ^{not} qualify under 400% from
year 2002
provided by:

Rural HALF Loans

2002 Sample of Households That Would Not Fall Below 400% Poverty Level

Senator
Kelly

TOTFAM	Yearly Income	400% Poverty	Loan
1	44,616	44,320	100,000
1	48,060	44,320	217,200
1	49,104	44,320	177,243
1	51,552	44,320	70,641
1	54,000	44,320	188,900
1	55,224	44,320	148,091
1	55,572	44,320	147,450
1	55,980	44,320	154,800
1	56,844	44,320	325,300
1	58,716	44,320	64,000
1	59,184	44,320	225,000
1	60,492	44,320	379,050
1	65,976	44,320	105,750
1	70,200	44,320	83,331
1	70,500	44,320	84,300
1	77,796	44,320	159,600
1	82,176	44,320	160,000
1	84,396	44,320	181,850
1	86,184	44,320	202,950
1	88,196	44,320	69,650
1	87,756	44,320	143,100
1	111,504	44,320	70,893
2	61,872	59,720	127,700
2	62,532	59,720	142,474
2	62,616	59,720	330,000
2	66,000	59,720	31,900
2	66,612	59,720	137,750
2	67,056	59,720	77,850
2	68,532	59,720	180,662
2	73,560	59,720	80,000
2	73,932	59,720	186,900
2	75,396	59,720	123,250
2	76,464	59,720	140,000
2	76,536	59,720	173,700
2	76,728	59,720	182,700
2	80,544	59,720	169,638
2	80,796	59,720	148,235
2	81,816	59,720	301,250
2	83,400	59,720	136,721
2	84,912	59,720	202,931
2	86,660	59,720	158,650
2	85,932	59,720	170,000
2	88,692	59,720	200,000
2	89,796	59,720	292,600
2	90,000	59,720	258,400
2	90,168	59,720	187,680
2	91,388	59,720	149,600

Rural HALF Loans

2002 Sample of Households That Would Not Fall Below 400% Poverty Level

TOTFAM	Yearly Income	400% Poverty	Loan
2	92,952	59,720	187,200
2	93,144	59,720	225,000
2	95,076	59,720	251,100
2	96,984	59,720	163,975
2	98,076	59,720	200,000
2	105,144	59,720	150,000
2	112,020	59,720	86,069
2	118,248	59,720	196,830
2	127,596	59,720	240,000
2	128,124	59,720	157,422
2	132,000	59,720	188,000
2	152,592	59,720	190,800
2	173,340	59,720	265,500
3	76,176	75,120	112,000
3	76,632	75,120	130,965
3	78,636	75,120	113,400
3	79,284	75,120	202,999
3	80,148	75,120	137,431
3	85,188	75,120	81,352
3	95,184	75,120	146,400
3	100,968	75,120	238,000
3	105,684	75,120	225,000
4	91,068	90,520	256,500
4	93,708	90,520	139,500
4	93,744	90,520	105,900
4	94,008	90,520	335,000
4	94,200	90,520	180,250
4	95,328	90,520	164,700
4	99,744	90,520	412,500
4	99,972	90,520	130,530
4	107,568	90,520	85,400
4	108,060	90,520	175,750
4	113,340	90,520	405,000
4	120,000	90,520	134,500
4	121,596	90,520	269,500
4	340,920	90,520	412,500

Sectional Analysis

Committee Substitute Senate Bill 181

Sec. 1 amends AS 18.56.440(5) by deleting the rental housing provision and replaces the language to read "a single family owner occupied home with a value that exceeds \$250,000"....

Rationale: This change limits the program to owner occupied homes with a value not exceeding \$250,000. The \$250,000 cap will increase with inflation.

Sec.1 also adds AS 18.56.440(7). This new subsection places an income limit of 4 times the federal poverty level as a qualifying criterion. Currently, that is over \$88,000 for a family of four.

Rationale: This change limits this loan subsidy program to families that might not qualify for a market rate loan which is the intention of the program. The state should not have to subsidize loans for higher income residents.

Amendment W.2 amends work draft "W" by deleting the sections that repeal the home ownership assistance fund.

Rationale: This amendment is necessary to keep the program available to Alaskans. Repealing the fund would close the program to new loans.



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

Sponsor Statement

Committee Substitute Senate Bill 181

"An act relating to the use of money from the housing assistance loan fund in the Alaska Housing Finance Corporation, preventing use of that money for a single family owner-occupied house with a value that exceeds \$250,000, adjusted for inflation, and repealing a provision authorizing use of the money for non-owner occupied housing; repealing the home ownership assistance fund; and providing for an effective date"

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that discourages formation and unification of local governments. But that is just what AS18.56.420 (the HALF program) does. CSSB181 restructures eligibility for the small community housing loan program. The program includes a statutory 1 percent below market interest rate for the Housing Assistance Loan Fund (HALF) program. AS 18.56.420 creates the HALF program to provide housing loans to residents in communities of less than 6,500. AS 18.56.420 currently requires that these loans be made at 1 percent below market rates. This loan program is managed by AHFC. The 1 percent discount on HALF loans costs the state on average over \$40,000 in lost income over the life of one of these loans. The Committee Substitute modifies the eligibility requirements to make it **needs based, caps the loan amount, and does not permit loans for non-owner occupied homes**. The original legislation sought to eliminate this HALF program because:

- 1) A September 2000 legislative audit concluded that the need for the program has been eliminated through other programs and private entities meeting the needs of homeowners.
- 2) Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other less well off Alaskans is unfair discrimination.
- 3) Elimination of the subsidy will help to promote formation, consolidation and unification of local governments.

At Senate Finance Committee hearings held last April support existed for continuation of this program. Accordingly, this committee substitute was drafted so that the program could continue. However, it is appropriate that eligibility standards be adapted to make the program

needs based. The program should also be limited to financing a primary residence. The reason the bill modifies eligibility is that it is apparent that the 1 percent subsidized rate is being abused. In fiscal years 98 and 99 there were 1,026 HALF-subsidized loans made. During that two-year period the 1 percent subsidized loans were made to 166 borrowers with annual incomes over \$100,000. 74 percent of the loans made during this period were to borrowers in areas where home construction costs are less than in the Anchorage area. The average price of a home receiving a subsidized loan during this period was \$167,000. During this same period 148 loans were made for amounts above \$200,000. 11 loans were for amounts greater than \$300,000, the highest loan being for \$400,000. The 1 percent subsidy on that \$400,000 loan will cost the state close to \$100,000 in lost income over the life of that loan.

The HALF program was intended to give people a chance at home ownership when they didn't have other options. However, the eligibility requirements need to be tightened up so that those who can afford other programs or are already in low cost construction areas are not eligible. The eligibility requirements included in the Committee Substitute include limiting the loans to owner occupied single family or owner occupied duplex homes; owners must have incomes less than four times the Federal poverty level for Alaska, and the home being financed cannot have a value of more than \$250,000. The \$250,000 cap will be indexed to inflation so the value will increase in step with inflation should continue to provide an attractive loan program for those needing to use the program. It's just not good public policy to subsidize a multi unit housing development to increase the owner's profits. Even though no loans have been made for housing units larger than two units, it is good policy to place the prohibition in statute. It is probable that the people building multi unit housing have the income and/or the financial strength to use other non-subsidized programs. A subsidy program is usually reserved for those whose circumstances require it. Accordingly, the Committee Substitute includes an income ceiling of four times the Federal poverty guidelines. So that extravagant homes are not subsidized, the loans are capped at a housing value of \$250,000. The current 1 percent subsidy as it currently exists is simply not good public policy. Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other Alaskans is unfair discrimination.

In addition, the HALF 1 percent subsidy program has had a negative impact on creation of unified local governments. The constitutionally created Local Boundary Commission report released in 1998 cited this program as a major impediment to the formation and consolidation of local government in Alaska. That report cited specific examples including that of opponents of the proposal to consolidate the City of Haines and the Haines Borough, who listed the loss of eligibility for the HALF 1 percent subsidy as a reason not to consolidate.

Another example is in the Kenai area where among residents who live along the boundary between the city and the borough, those who live in the borough get the 1 percent reduced home loans, while residents on the city side do not. It is this unfair discrimination that inhibits the efficient formation of local government. The state pursuant to the Alaska Constitution should be encouraging the formation and unification of local government not discouraging it.

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that

discourages formation and unification of local governments. For these reasons the HALF 1 percent subsidy program should be modified so that only those who truly need the subsidy for an "average" home are eligible.

DD/pc



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

Sponsor Statement

Senate Bill 181

“An Act relating to the use of money from the housing assistance loan fund; amending the definition of ‘small community’ for purposes of the small community housing loan program in the Alaska Housing Finance Corporation; and providing for an effective date”

It is clearly not good public policy to have a state program that rewards rich and well off people in low cost construction areas with a special discriminatory housing loan subsidy that discourages formation and unification of local governments. But that is just what AS18.56.420 (the HALF program) does. CSSB 181 restructures eligibility for the small community housing loan program. The program includes a statutory 1 percent below market interest rate for the Housing Assistance Loan Fund (HALF) program. AS 18.56.420 creates the HALF program to provide housing loans to residents in communities of less than 6,500. AS 18.56.420 currently requires that these loans be made at 1 percent below market rates. This loan program is managed by AHFC. The 1 percent discount on HALF loans costs the state on average over \$40,000 in lost income over the life of one of these loans. The Committee Substitute modifies the eligibility requirements to make it needs based. The original legislation sought to eliminate this HALF program because:

- 1) A September 2000 legislative audit concluded that the need for the program has been eliminated through other programs and private entities meeting the needs of homeowners.
- 2) If the 1 percent subsidy is eliminated from the HALF program, over a half-million dollars a year in additional AHFC earnings could potentially be made available to help balance the state fiscal gap.
- 3) Providing these low cost loans to borrowers who don't need the subsidy while denying such a subsidy to other less well off Alaskans is unfair discrimination.
- 4) Elimination of the subsidy will help to promote formation, consolidation and unification of local governments.

At Senate Finance Committee hearings held last April support existed for continuation of this program. Accordingly, this committee substitute was drafted so that the program could continue. However, it is appropriate that eligibility standards be adapted to make the program needs based. The program should also be limited to financing a primary residence. The reason the bill modifies eligibility is that it is apparent that the 1 percent subsidized rate is being abused.