

ALABAMA LEGISLATIVE COUNCIL / HOUSE 620

620 SCOMM18: HOUSE SPECIAL COMM. ON PERMANENT FUND 1978-80

DIVISION OF COLLECTION

100 - Personal Services

Director - Range 27	\$ 3,940
Secretary I - Range 10	1,254
Administrative Officer III - Range 21	2,728
Collection Officer IV - Range 20	2,532
Accountant IV - Range 18	2,186
Accountant II - Range 14	1,629
Accounting Clerk II - Range 9	1,178
Accounting Clerk II - Range 9	1,178
Accounting Clerk II - Range 9	1,178
Data Control Clerk - Range 8	1,108
Collection Specialist - Range 12	1,426
Collection Specialist - Range 12	1,426
Collection Specialist - Range 12	1,426
Collection Specialist - Range 12	1,426
Clerk Typist III - Range 8	1,108
Clerk Typist III - Range 8	1,108
Clerk Typist III - Range 8	1,108
Collection Officer III - Range 18	2,186
Clerk Typist III - Range 8	1,108

Anchorage:

Collection Officer IV - Range 20	2,532
Collection Officer III - Range 18	2,186
Collection Officer II - Range 16	1,888
Accountant III - Range 16	1,888
Clerk Typist III - Range 8	1,108
Clerk Typist III - Range 8	1,108
Clerk Typist III - Range 8	1,108
Collection Specialist - Range 12	1,426
Accounting Clerk II - Range 9	1,178

Fairbanks:

Collection Officer IV - Range 20	2,934
Collection Officer II - Range 16	2,186
Accountant III - Range 16	2,186
Clerk Typist III - Range 8	1,254
Clerk Typist III - Range 8	1,254
Accounting Clerk II - Range 9	1,339
Collection Specialist - Range 12	1,629

\$ 58,437

Total for 12 Month Period 701,244

Benefits at 17.70 124,120

Health 420 mo. 49,464

FICA at .0613 42,986

\$917,814

200 - Travel

Field (210) 65%	\$ 26,000
Administration (220) 30%	12,000
Conventions (230) 5%	2,000
	<u>\$ 40,000</u>

300 - Contractual

Postage, Telephone, Etc. (310)	\$ 56,000
Printing Forms, Etc. (320)	15,000

300 - Contractual (cont'd)

Space Expense (Rent) (330)	\$ 60,000
Copiers (360)	14,500
Date Entry - 3742	8,300
Terminals	44,400
Printers	4,500
(6) Mag Card "A" (364)	16,800
Contract for Legal Service (380)	150,000
	<u>\$369,500</u>

400 - Commodities

\$ 10,000

500 - Equipment

Desk, Executive	\$ 8,515
Desk, Secretary	4,180
Chairs	6,830
Calculators	5,465
Side Chairs	1,650
Filing Cabinets, Legal	4,280
Typewriters	3,285
Bookcases	720
Tables, 70 x 36	820
	<u>\$ 35,800</u>

600 - Office Space

\$ 81,000

ESTMENT OVERSIGHT DIVISION

00 - Personal Services

(1) Director - Range 27	\$ 3,940	\$ 47,280
(1) Secretary II - Range 11	1,339	16,068
(3) Investment Analyst II - Range 18	2,186	78,696
(2) Clerk Typist II - Range 7	1,045	25,080
(1) Investment Analyst III - Range 20	2,532	30,384
(1) Investment Analyst I - Range 16	1,888	<u>22,656</u>

	220,164
Benefits	67,728
	<u>\$287,892</u>

00 - Travel

Legislative Budget & Audit Meetings:

Travel	\$ 3,150
Per Diem	1,800

Field/Administrative Travel:

Travel	3,500
Per Diem	4,000

Conventions/Meetings:

Travel	6,600
Per Diem	2,000
	<u>\$ 21,050</u>

00 - Contractual

Communications	\$ 8,000
Printing/Advertising	9,500
Repairs/Maintenance	2,300
Equipment Rental - Word Processing	7,900
Financial Consulting	85,000
Other Fees and Expenses	3,200
	<u>\$115,900</u>

00 - Commodities

\$ 4,100

00 - Equipment

\$ 6,500

00 - Office Space

\$ 31,000

TOTAL

\$446,442

PERMANENT FUND CORP.

100 - Personal Services

(1) Director - Range 27	\$ 3,940	\$ 47,280
(1) Secretary II - Range 11	1,339	16,068
(1) Comptroller - Range 24	3,401	40,812
(1) Secretary I - Range 10	1,254	15,048
(1) Accountant IV - Range 18	2,185	26,232
(2) Investment Officer III - Range 24	3,401	81,624
(2) Accounting Technician II - Range 14	1,629	39,095
(2) Accounting Clerk III - Range 10	1,254	30,096
(2) Accounting Clerk I - Range 8	1,105	26,520
(2) Clerk Typist II - Range 7	1,045	25,080
(1) Clerk Typist II - Range 7	1,045	12,540
(1) Loan Examiner III - Range 19	2,355	28,262
		<u>388,656</u>
	Benefits	<u>121,446</u>
		<u>\$ 510,102</u>

200 - Travel

Board Meetings In State:		
Travel		\$ 6,300
Travel/Director and Staff		6,300
Per Diem		7,200
Honorarium		18,000
Field/Administrative Travel In State:		
Travel		6,300
Per Diem		5,400
Field/Administrative Travel Out of State:		
Travel		7,920
Per Diem		2,400
Conventions/Meetings Out of State:		
Travel		15,840
Per Diem		4,800
		<u>\$ 80,460</u>

300 - Contractual

Communications	\$ 49,200
Printing/Advertising	16,500
Repairs/Maintenance	2,600
Equipment Rental - Word Processing	8,700
Equipment Rental - Computer	65,000
Software Design and Installation	450,000
Safekeeping	50,000
Consulting	104,600
Other Fees and Expenses	25,000
	<u>\$ 776,400</u>

400 - Commodities

\$ 16,000

500 - Equipment

\$ 10,000

600 - Office Space

\$ 46,100

TOTAL

\$1,439,062

DIVISION OF TREASURY

00 - Personal Services

(1) Director - Range 27	\$ 3,940	\$ 47,280
(1) Secretary II - Range 11	1,339	16,068
(1) Accountant IV - Range 18	2,186	26,232
(1) Accounting Technician III - Range 16	1,338	22,656
(1) Accounting Clerk III - Range 10	1,254	15,048
(1) Clerk Typist II - Range 7	1,045	12,540
		<u>139,824</u>
	Benefits	43,495
		<u>\$ 183,319</u>

00 - Travel

Legislative Budget and Audit Meetings:		
Travel		\$ 3,150
Per Diem		1,800
Field/Administrative Travel:		
Travel		1,750
Per Diem		1,500
Conventions/Meetings:		
Travel		2,640
Per Diem		600
		<u>\$ 11,440</u>

00 - Contractual

Communications	\$ 12,000
Printing/Advertising	16,500
Repairs/Maintenance	1,100
Equipment Rental - Word Processing	8,700
Consulting	93,000
Other Fees and Expenses	2,100
	<u>\$ 133,400</u>

00 - Commodities

\$ 3,200

00 - Equipment

\$ 9,500

00 - Office Space

\$ 15,000

TOTAL

\$ 355,859

MEMORANDUM

TO: Hon. Peter Bushre
Deputy Commissioner of
Revenue-Investments
Pouch SB
Juneau, Alaska 99811

FROM: Wohlforth & Flint

DATE: March 23, 1979

SUBJECT: Substitute for Senate Bill No. 1
"An Act Relating to the Alaska
Loan Programs Fund, the Alaska
Permanent Fund, State Investment
Policy and other State Revenues;
and providing for an effective date"

RECEIVED
MAR 27 1979
ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION
JUNEAU

Since I cannot be in Juneau to testify on the above bill at the hearing scheduled for March 29, 1979, I would like to submit in writing the following comments.

I understand that the questions arising from the bill concerning "arbitrage" issues under Proposed Regulations 1.103-13 and 14 of the Internal Revenue Service will be dealt with by Mr. George Woolfe, of the law firm of Orrick, Herrington, Rowley & Sutcliffe. The questions alluded to in my memorandum dated February 6, 1978, with respect to this bill last year (Senate Bill 429) have been made more acute by the issuance of the proposed regulations on September 1, with respect to the permitted spread between bond yield and the yield on acquired purpose obligations, yield on reserve funds and the invested sinking fund provisions of the proposed regulations.

Last year I noted in my memorandum that the bill effectively wiped out a major portion of the present state loan programs without regard as to whether such programs are being financed directly by the general fund or through the issuance of tax exempt bonds on the public market. In attempting to centralize state loan activities, the bill is apparently based on the assumptions in the report entitled "A Narrative on Senate Bill 429" issued last year by the Senate's Special Committee on the Permanent Fund. This narrative is sharply critical of the history of state loan programs and independent corporations without detailing, except in broad terms, the particular deficiencies.

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Admittedly there are deficiencies in State loan programs, as evidenced by the recent Haskins & Sells audit on the Veterans Loan Program. On the other hand, public borrowing entities which have financed home mortgage loans or loans to municipalities through tax exempt bonds have operated efficiently.

The following will attempt to detail some of the features of the bill especially worthy of note:

1. AS 45.96.120 creates the 'allocated reserve account' within the general fund. Income from the permanent fund is "allocated to the account". Amounts necessary to fund the capital reserve account, the fire insurance and liability reserve account and the loan loss reserve account are allocated to those accounts from the allocated reserve account. It is apparently conceived that income from the permanent fund is a perpetual source of funding for the allocated reserve account allocations to the above mentioned accounts. It is legally doubtful, in my view, that such an allocation without an annual appropriation for the purposes is effective. Section 125 establishes the unallocated reserve account which is to be funded through appropriation lapses at the end of each year. The amount available for this account therefore, would vary depending on budgetary and expense procedures and would be uncertain.

2. The capital reserve account created under Section 140 is to be capitalized from bond proceeds in the amount of 5% of the principal amount. This section is inconsistent with the provisions of Section 120 which provides that the allocated reserve account funds the amount in the capital reserve account.

3. With respect to Section 120 and other sections establishing percentages, it is suggested that legislation of this sort is not the correct place to fix percentages but that the matter should be left to negotiation in the light of market conditions pursuant to the underlying bond security documents.

4. Replenishment of the capital reserve account and the loan loss reserve account is to be made annually from the allocated reserve account. It is noted above that the allocated reserve account is allocated all of the income from the permanent fund. It is submitted that this income must be the subject of an annual appropriation unless the

Permanent Fund amendment to the Constitution specifically permits a permanent dedication and pledge to bond holders of income.

5. Although the narrative on Senate Bill 429 last year indicated that a virtue of the bill was reduction of State agencies and authorities it should be noted that the bill creates "a new Alaska loan programs evaluation committee" (Section 220) a new division of collections within the Department of Revenue (Section 240) and a new investment oversight division (Section 24.20.231).

6. Section 45.96.300 provides for purchase of local government bonds by the State. It was noted last year there is a technical mistake in providing that "loans to non-profit corporations should be made through purchase by the fund of revenue bonds issued on behalf of the corporation by the Municipality in which the project to be financed by the loan is constructed" (lines 8 through 12, page 26.) The scheme for state bid for local government bonds is set at percentage points above or below the daily bond buyer average for differing maturities. This is an arbitrary scheme based on a todays estimate of what bonds in the rate categories may sell for and it may well be an inaccurate and inefficient scheme as Alaska bonds increase in value. As with the other percentages fixed in this bill, the bidding percentages above and below the daily bond buyer average ought to be left to administrative determination. The revenue bond bid formula is even less apt to be correct. For some reason the bill permits the purchase by the State of all revenue bonds issued on a competitive basis on behalf of a non-profit corporation as well. The criteria for non-profit corporations which are eligible for the loans as fixed in AS 45.96.300 paragraph (d) on page 29 do not currently comply with the proposed "on behalf of" regulations of the Internal Revenue Service.

7. Section 45.96.320(d) provides for industrial development loans for projects up to \$5,000,000. 1978 amendments to Internal Revenue Code permit loans up to \$10,000,000, depending on location and capital expenditures over a six year period.

8. In this connection, the provision of Section 14 of the bill on page 45 should be noted. This section flatly prohibits any municipality from issuing an industrial development bond under the provisions of the Internal Revenue Code. Under this provision the City of Valdez could not have effectuated its oil terminal financing and the Municipality of Anchorage could not have issued its \$50,000,000 in Home Mortgage Bonds in March, 1979.

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The memo of February 6, 1978, last year, details other questions with respect to the bill.

In conclusion, the bill deals with the substantial subject matter of the means of funding all state loan programs based on the assumption that establishment of certain pre-determined and fixed reserves from permanent fund income, lapsed appropriations and bond proceeds will provide an efficient financing vehicle for this purpose. As noted above, the percentages fixed may or may not be adequate to support bonds secured by the many different types of loans which are to be made by the fund. The loans to be financed range from secure municipal bonds and housing loans to loans never before financed through publically marketed bond issues. The percentages established for the capital reserve account and the debt service reserve account may or may not be adequate to support bond issues for the varied purposes of the loan programs. In addition, the bill assumes in every case that it creates a more efficient financing vehicle than those presently existing in the state and fixes details of loan programs and the market rate on municipal bonds sold to the public (thus permitting sale to the state) which should be left to administrative discretion. Finally, the bill seeks to eliminate a large area of local government financing in the housing and industrial development bond field without any rationale suggested.

HOUSE SPECIAL PERMANENT FUND COMMITTEE

TESTIMONY BY WALTER FILKIN

ON MARKETING ASPECTS OF BONDS

29 MARCH 1979

Filkin: A key consideration in a program of this type is the fact that there would be two sources of security for bonds, and it almost by definition says that one is not sufficient. Judging from the permitted acts or the permitted loan activities that can be engaged in, I think it is reasonably clear that some might require additional security. The broad categories of municipal, housing, residential, and commercial do lend themselves to all grades of lending activities. Certainly in the municipal category alone, which I'm most familiar with, there are borrowing activities that are equal to that of the Federal government which would be AAA rated down to activities that are of very highly questionable ability to repay such as start-up ventures by very small water or sewer systems, or other sorts of bond issues in areas where there are declining populations or reducing tax bases, or in the case of New York City, some of the problems in borrowing are well documented and we need not go into them. But in any event, there is a vast range of quality. So when you come to an activity of borrowing in the long-term market, the question of can the issue repay and pay not only the debt but also the interest on a timely basis, is the critical question in terms of what additional will be needed if there is some question about its marketability. So we get into the area of a loan program covering a vast array of possibilities, having as an ultimate or a backup security the earning power of the Permanent Fund. I think that's what we're really dealing with today.

To the extent that the security of the loans that are being made are sufficient in the market place, the Permanent Fund pledge itself isn't necessary. And so what we are dealing with is something where I presume the drafters of the bill would say the pledge of the Permanent Fund would be a vital necessity here and the question is, first of all, how does it impact the ability of the State to conduct its more typical or more normal borrowing programs and, secondly, what is the prospect of being able to conduct a continuing program like this in the general market.

Let's consider the make-up of the Permanent Fund itself. I think it is important if it is viewed as a true source of security for this loan program and the financing of this loan program, that sufficient boundaries be put on the investment uses of the Permanent Fund so that the benefit that is hoped for doesn't get dissipated. I mention that because part of the uses of the Permanent Fund might certainly be valid but their impact on security for bonds might be very limited... For instance, the Permanent Fund, at an extreme, if it were used for loans that had little or no chance of being repaid, the pledge of that fund as security for another loan would not be viewed as a good security in the market place. The other extreme, if the Permanent Fund were restricted to its investment only in U.S. Government Treasury bills and bonds as the Texas Permanent Fund is for example, the security of that Fund on another borrowing would make that other borrowing AAA rated. And that's exactly what the U. of Texas, whose Permanent Fund secures much of its borrowing, has right now... Somewhere in the middle is probably where the Alaska Permanent Fund would fall, but keep in mind that two independent pledges are important for the market to view the combination of the two as adequate in the long term. If, for instance, you had a \$100 million Permanent

Fund that was currently 50% in U.S. Government and 50% in commercial loans such as fisheries and other small business type loans, that in itself probably wouldn't be sufficient without some other parameters around that Permanent Fund and some other limitations on the amount of debt that could be incurred that would be secured by a pledge of that fund. Even though at the outset you could say our first borrowing is going to be \$25 million and we have the income from that \$100 million fund as a backstop pledge. So I would suggest that it is important that the limitations on the investment opportunities in that fund be considered carefully in order to gain what is hoped to be gained by a pledge of the fund for borrowing to secure these various loan programs.

The impact of the loan programs on the State borrowing program itself which today is in the neighborhood of about 250-300 million dollars every two years; it could have some impact. If in the transition of the General Fund surplus there is a view of the market place that it can be funneled into the loan program to the extent that they are not credit worthy programs could somehow draw down on the balance in the State's bank account, the market place could view the State far differently than it currently does. In the last ten years, the State excess of revenue over expenditures has been about four years out of ten. The other six years, there's been a slight to large excess of expenditure over revenue. The market place has not disregarded this but has accepted it, because ten years ago there was roughly a billion dollar surplus in the General Fund and has accepted the fact that there could be an excess of expenditures from time to time but overall has not looked at it as an alarming trend. It might have if there had been no surplus... If in the future there is a program which in some way could draw down, in the view of the market place, an unlimited amount of that surplus through the operation of the program

such as the Permanent Fund pledge and State loan programs, then I think the impact on the State for its own borrowings would be negative.

Rogers: If we're going to use this money to guarantee one form of loan, or one issue, then we'd have to pledge that we wouldn't use it to guarantee something else?

Filkin: That would go without saying. What I'm suggesting, though, is that, in addition to that, if you contemplate selling a block of bonds, and you've got an adequate revenue flow from the Permanent Fund to support the debt service on that issue, the only real way that the market would accept that sort of an arrangement would be if they could be assured that a year from now or ten years from now you wouldn't issue ten times the amount of debt with the same revenue projections that you now have. In other words, you'd be relying more on the loans themselves to provide the cash flow rather than the Permanent Fund. And to the extent that they thought that might happen, you'd probably feel it today when you issue that first issue of bonds.

Rogers: Are you saying that that would effectively put a lid on our other issuances that are completely unrelated; revenue bonds or G.O. bonds that were not secured by...?

Filkin: No, not necessarily. What I'm saying is that the way you would get your Permanent Fund bond program off the ground would be to show two things: first of all, that the debt service on that first issue can be well secured by the cash flow from the Permanent Fund; and secondly, that if you're going to incur more debt in the future, that the cash flow from the Permanent Fund will have to have increased sufficiently to support that debt as well.

Rogers: You're only referring to debt which is guaranteed by Permanent Fund income? You're not referring to other debt...?

Filkin: I was in an earlier comment and I'll get back to that, but on this question

here that is all I'm referring to. If your principal and interest requirements are \$5 million per year... and suppose you have \$4 million of Permanent Fund income pledged to the payment of those bonds, then another bond issue is proposed a year or two years out that's going to have an additional \$5 million of debt service; if it can't be shown that Permanent Fund income is going to increase at least proportionately to support that additional debt, then you've got problems not only doing it then but selling this first issue....

If there are ways in which the unappropriated General Fund balance, which I guess now becomes an unallocated reserve, can be utilized; in other words, if there are deficiencies in various accounts that have to be filled, and the Commissioner of Revenue or whoever is going to administer it is required or even has permission to fill those reserves because they've been drawn down to pay bonds or something due to the fact that the loan program itself hasn't been self-supporting, then that would have an impact on State borrowing for general obligation purposes.

Rogers: Because the market would realize that even though we've been keeping a fairly steady even revenue vs. expenditure you'd have in effect a possible sudden large expenditure drawing out all of our surplus...?

Filkin: The market would view that as a possible leak even though every year there is that possibility... this sort of a program, it might focus as a new program and focus on that....

Rogers: The market sort of weighs these as probabilities and this would increase just a new opportunity for leak as a higher probability...?

Filkin: That's a good way to put it, yes.

Rhode: Unless I'm ahead of your remarks, we spoke a moment ago about the possibility

of issuing up to a billion in revenue bonds on behalf of the Northwest proposal, assuming we got an IRS exemption, and others are talking about the Susitna project, the current estimate of the Corps of Engineers brings the final cost of that up to 3½ billion. How interrelated are these things? Is the market going to judge Susitna or Northwest proposal strictly on its own without regard to a large revenue bond program of the kind in this bill or?

Filkin: That really depends on where the possible relationship between the State and these particular projects... what that relationship is. If it is truly a revenue bond project, payable only out of the revenues that flow from the gas pipeline or from the Susitna and the contracted sale of power, they should have little impact on the State's finances. The fact that they are so large and the fact that today the State is so committed to petroleum (means that) something that happens in the petroleum area does have an impact on how the market views the State of Alaska general obligation bonds. If that weren't the case, the State of Alaska probably would still be rated BAA1, but instead it's rated A1 and so that was a positive thing, but at the same time if negative things do happen in areas so vast as petroleum or in the future so vast as natural gas or hydro power, those each could have some impact on the State's loan financing arrangements.

Rhode: Maybe another way to put the question, when New York City got in trouble, did other agencies, say of the State of New York or revenue bonding authorities, ... (get in trouble)?

Filkin: For a time there was sort of a ripple effect or a neighborhood effect on municipals and it was felt the greatest on the East Coast. It was felt in greatest in New York City. To some extent it had little or no impact

and in fact there were a number of municipalities in New York State that really suffered a close out from the market place for several months. As a result of New York City's problems, people didn't want to associate with anything close to New York. It was a little bit irrational but nevertheless that's what some of the investors as a group decided to do. They had enough of an alternative in the Midwest and the West and Alaska that they said, wait this one out. That's more temporary -- even though for somebody else it's minor, when it happens to you it's major -- but it was a temporary thing that ultimately corrected itself and the problem was zeroed in on and sort of isolated. Just to give you some idea, seven or eight years ago when the State of Alaska went to the market place to borrow money, the comparison was sort of three-way: should this be a slightly higher rate or slightly lower rate than New York City and Puerto Rico? Well, today the conversation is: how much more should it be than the State of California, which is AAA rated, or Virginia, or Minnesota or Illinois, and there's no discussion at all about how Alaska rates with New York State or Puerto Rico, because they have declined at a time when Alaska has improved. The one area, though, where there was some valid concern was if this is happening in New York, is it also happening in Boston and Baltimore and Detroit and Cleveland. And the fact is, it was, and people weren't focusing on it quite as much. So it did highlight the problem and probably bring it to light in other areas a little more clearly....

Malone: Are there other points you think you should touch on in the legislation?

Filkin: I hesitate to go through point by point in the legislation. I guess my concern is that it appears to be so all-inclusive that I would urge a little concern on that point alone. If I could cite just one example, the permitted investments have a long list, starting with U.S. Government and going all the

way down through prime corporate bonds and then any other sorts of securities as a separate category.

Malone: This is the Permanent Fund you're referring to?

Filkin: Yes. Again, given the objective of the Permanent Fund as a source of security for another group of loans which needs that source of security, the opportunity to invest in such a broad range loses the impact that was designed for that fund. I'm not suggesting how the investments ought to be made, but the restrictions on the investments ought to be made with the objective of what the pledge of that fund is designed to do.

In the area of the municipal loan program, there is a section dealing with the fund's purchase of municipal bonds on a set formula.

Malone: It requires the loan fund to submit a bid for certain types of municipal bonds according to the formula.

Filkin: Where we've observed formulas like this in the past and there haven't been many but the experience has been roughly the same, the fund either buys all the bonds in a given market or none of them simply because there hasn't yet been devised a formula that is simple enough to administer and yet sensitive enough to react to the changes in the market place on a day-to-day basis. And I would say that even though there has been some care taken in drafting that section, I think the experience would prove to be true in Alaska, too, that the fund would wind up the purchaser of a lot of bonds or no bonds depending on the market; and I guess a corollary to that is that the marketable bonds which might go to the rest of the bond market and the poor security or those that are not deemed credit worthy would line up in the portfolio of the Permanent Fund because there isn't any limitation other than A rated and better or BAA rated or worse, as I recall.

Rhode: Another witness from New York the other day gave his judgment that revenue bonds of the kind in this bill which are a mixture of everything from student loans to commercial lending would not, at least initially, be marketable without this guarantee of earnings coming off the Permanent Fund.

Filkin: I think that's a good generalization. You could always find a situation where the source of security for an unusual commercial loan or a student loan was so strong that it wouldn't need any additional security, but I think, by and large, a combination such as this with its broad ability to lend under just about any circumstances, is dependent on the fund. I think the pledge of a very strict source of pretty much unrelated security is a requirement.

APPROVED

HOUSE SPECIAL PERMANENT FUND COMMITTEE

TRANSCRIPT OF TESTIMONY BY SAMUEL PLAIA ON SS SB 1

27 MARCH 1979

Plaia: Senator Hohman's bill is a very extensive one, but rather than make a detailed analysis of it, due to time constraints I'd prefer to make some general comments on the intent of the bill and what problems I feel may arise from the bill as it's presently constituted.

Your comments earlier about the use of the income of the Permanent Fund to support debt to provide the capital funds quickly to bring massive investment into the State to help the State develop a series of industries and help the State's citizens receive money under favorable terms and conditions is certainly the essence of Sen. Hohman's bill. The theory of it is that the income from the Permanent Fund could be used as the security for the sale of so-called revenue bonds (being revenue in the sense that they would be paid back not by the general obligation resources of the State, but from the income produced from the investments that such a loan program would make... i.e., the loans themselves when repaid or paid down on a schedule would presumably amortize the revenue bonds). But recognizing that such programs would require a substantial amount of time to put into action, as well as several of the purposes for such loans being ones which would require extensive time for their repayment, the attempt is made to provide the specific income from the Permanent Fund's investments as the security or collateral which would make an investor willing to buy the bonds. Because the investor does not have the specifics of what the particular loans would be made in and, therefore, could not make a judgment as to the value of that particular program and the likelihood as to whether the investment is going to be repaid through the earnings of that particular loan, he would need such additional collateral. In addition, it would provide the investor an opportunity to examine perhaps more closely the projected income of the P.F. over a period of years and give the investor a certain sense of security that without regard to whether the loan programs succeed or fail, in effect the money is going to be segregated and kept there so that principal and interest can be paid when due. It is also true that that kind of a collateral would allow bonds to be sold at a somewhat lesser interest rate and, as a matter of fact, without it, I don't think bonds for such programs as proposed here in this bill could be sold at least for some of the purposes which have been outlined in the bill.

Given that introduction, I'd prefer to address some of the loan purposes. There are certain areas I feel require comment... (page # referred to are from original version of SB 1, and same as HB 279)

Starting on page 25, we have the loan purposes: residential housing, commercial purposes, public purposes, and education. In the case of residential housing, I see no general problems since that is a well-established public purpose and is being used in the State presently and throughout the lower 48.

The area that I have the prime concern with is commercial purposes... (here reads what bill says about commercial loans). It seems to me that the intent here is somewhat similar to that of the Federal government Small Business Administration, which is to provide loans for smaller industries which do not have ready access to capital from other sources, either because there's an inefficient market mechanism by which they can raise such funds or there are not appropriate investors prepared to make such funds available.

The record of the SBA has not been particularly good. The intent has been sound and despite the very elaborate documentation that is required before such loans are granted, there have been a significant and outstanding number of defaults. When I read this bill, I tried to imagine a situation which could arise, and that is let's assume we have an idea which we believe is commercial and can create cash flow and, presumably profit. And what I'm concerned about is what can happen as a result of the State making an investment in such a commercial venture. And that is that a group of people would get together as provided in the bill and form a corporation and put in a certain amount of capital and then go to this particular program and outline a plan for the expenditure of let's say one million. And they make projections and show that if they are successful they will be able to produce a profit and a cash flow and after administrative costs and expenses will then produce a source of funds which can be used to repay the loan. There will be an enormous temptation, if this program is put into effect, for somebody who's always wanted to be a successful entrepreneur to come up with some pretty good ideas which seem to be sound, and form a corporation and get let's say the million dollars, which will provide for salaries and the rent and overhead and travel expenses of the corporation, and set aside a certain amount as a reserve for the repayment program and successfully repay their obligation. Unfortunately, what they can also do.... (Here tape was changed; scenario of corporation that might default on loan payments was continued).

And the ^{only} recourse is that the State or the program can now go to the individual who has personally guaranteed the particular obligation and say now I want to collect from you or the group of shareholders the \$750,000 that's not been paid back. And at that point any individual who does not have the money has available the appropriate mechanism through bankruptcy court to be relieved of that obligation.

As a result, the funds which made this investment have now lost this principal and the Permanent Fund income will now have to be used to make up that deficit. So that you have here a State going into the business of loaning funds to corporations in ways in which that corporation can very, very easily bleed off the assets leaving you with nothing at some particular time, either by intent or unintended, because of poor business judgment.

Malone: In the commercial loan section of the bill, it provides for collateralization... such safeguards... can they be built into the law so the loan fund or the Permanent Fund, I don't know, would have recourse against the collateral...?

Plaia: Yes, that can certainly be done, however if collateral is a building, it's pretty hard to move a building; and if collateral is inventory and expended money, then the collateral is not existent. A ship, for example, yes you could probably re-capture a ship... and we have records of the attempt to collect such collateral... but it's not so easy to collect....

Malone: ...To what extent would the legislation concept encourage defaults... Is the fact that the buyer of the revenue bond is not looking to the operation of the loan fund (unclear)....?

Plaia: It's the only security he has, and that's the only reason he would buy the bond. For example, several years ago the Small Business Administration encouraged the formation of private small businesses and corporations to get the private sector into particular businesses and it provided certain incentives and tax advantages to encourage them to develop these small business investment corporations (SBIC). And there was a great flurry of raising capital for these SBICs, publicly held but non-governmental corporations, to provide such funds because the assumption was that you could put together a sophisticated group of investment decision-makers and that they could provide the funds for let's say a small company that needed \$350,000 for expansion of existing facilities or that had a new idea or a new patent which seemed to have a strong possibility of success. And the SBICs would provide the capital for this in return for a share in the equity of the corporation. The record of this as it stands today is pretty dismal despite the presumed sophistication... there were banks, for example, that had SBICs formed as subsidiaries and the record of investments is extremely poor, and these were investments that were made with the same intent and purposes as here by people who presumably had a great deal of sophistication and the record is that it was not successful. Not only was it not successful, but in most cases it failed. Now the value of these SBICs has (unclear) because the portfolios have not produced the income which would allow them to pay the dividends to the equity shareholders in a way which would make good market price on the security. In addition, ...over the last five years the SBA itself, in guaranteeing or making some of these loans, has found that the primary purpose of the loans seems to have been to feather the nest of the officers of the corporations who borrowed the money.

Malone: Why did the SBICs encounter these problems?

Plaia: The problem is the pressure for investment. If you have the funds sitting around, you want to put them to work. Now if the purpose in putting them to work is not just to invest the principal and get a prudent income out of it, you're going to have to find investment opportunities, and you become far more willing to look at investment opportunities when the job that you have is to make investment in such opportunities. So while you may not seek them out, you certainly become far more receptive to them when they come in because who knows when the next opportunity is going to come along for you to make such an investment and fulfill your duties and responsibilities. Pressure -- the funds are there and they are supposed to be put to work.

Malone: What sort of standards do the officers of the SBIC have to meet...?

Plaia: Judgment, mature judgment, in terms of the people involved, what their record is in making a company go. They look at officers, they look at the product, they look at the product's share of the market or they make a judgment of how valuable the product is....

Malone: I understand that they do that... But what I'm getting at is what is the essential difference... I mean if we talk about a loan fund secured by a separate fund with its own earnings... maybe there's no incentive for the loan fund to turn in a good record as opposed to a bad one... What is the parallel with the SBICs?

Plaia: In the case of the SBICs, number one they would require far less equity than a bank because they are depending much more on their judgment.

Kocsis: Re. value limitations section of the bill, isn't that a fairly conservative way of approaching it and that would protect it about as much as a private bank or anyone could be protected?

Plaia: If banks are doing that, it's not for some of the kinds of purposes as these commercial loans. No bank would make a commercial loan on these standards, at least in my opinion. They might make it for housing... 90% is pretty standard but that's based on the theory and feeling that real estate is a continual and constantly increasing asset because of its diminishing availability... But this is not the case in commercial ventures. Take fishing for example, which depends solely on nature... Re. 95% of the appraised real property... I'm not sure the bank would go along with that. 80% of tangible personal property... what might constitute tangible personal property as security for the loan... car, furniture, paintings, jewelry... you can't get 80%....

(Comments from Haugen and Bushre unclear).

Rhode: Mr. Chairman, I just have a comment. Surely it must make a difference if I have some kind of plant and equipment worth a half million, but it's located in Barrow. If the State has to go in on a default and sell off the property, it's true the replacement cost of that project is as I stated in my appraisal, but can you get that kind of money? You are asking someone to come in to take over a failed business.

Plaia: You will sell it at so-called distress prices, so that even 75% would be good if this is in an area that is remote or has been chosen simply because that is the place where the incorporated individual has chosen to live and reside. If you want to encourage somebody else to come in there, you are going to have to give them a big carrot. The big carrot is that they are going to be able to buy something really cheap. The market place is pretty vicious when it comes to things like that.

Malone: To summarize the points you've raised so far... In at least the initial years, the operational loan fund may not be held to reasonable standards because at least in the issuance of bonds the buyer is going to be looking at the Permanent Fund for security, not the operation of a new loan fund. Secondly, you have said that the operators of the loan fund may be under considerable pressure to get the money out and that may lead to problems in getting money back again. (Plaia confirms these).

One of the things that came up in the last session of the last legislature... a very complicated area... The public purposes section here, particularly the section where the loan program or fund would purchase municipal bonds....

Plaia: (Referring to series of formulas on pp.32-3). First of all, let me give you a little background. Municipal securities for the most part are sold in what's called serial maturities, in other words the total loan will mature over let's say a 20-year period and in the first year x amount of principal will be paid and whatever the interest is and in the second year another amount of principal will be paid etc. so that in each year you have part of the debt maturing. So it's called a serial loan, as opposed to a so-called term loan... Serial maturities sell at generally increasing rates of yield. In other words, the shorter the maturity, the less the yield; the longer the maturity the higher the yield. For example, a bank would be willing to accept a much lesser rate of interest for a bond due in one year than it would for one due in several years. So we have then what is called a yield curve... that is a curve whereby the shorter maturities generally sell at a lower price, the longer maturities sell at a higher price... Now the yield curve itself is subject to constant changes and distortions in the market place, depending upon the amount of investment money available for certain maturity ranges. Therefore, you go into periods where you will have a so-called normal yield curve whereby the one year maturity will be much lower than the longest maturity... But in cases of fluctuations in interest rate patterns and the availability of money, there may be less money available for shorter term investments than are available for longer term investments. Therefore, to create an interest in the shorter term investments, the yield has to be raised so there you get what is called flattened yield curve... i.e. the differential between these two is much closer... we are currently going through what is called a flat yield curve... Now this formula fixes the rate at which the State must buy securities, and it fixes it in such a way that it does not take into account the distortions that may occur from time to time in the yield curve. So consequently, the State would be forced to buy securities whether it wanted to or not, because the investor would not under this formula be able to find a way in which he could develop a security and a yield curve that he could sell in the market place....

Malone: Then you're saying the formula set out in the bill may result in the director of the loan program buying bonds for more than they can be sold for. (Plaia confirms). Is that because the formula is defective?

Plaia: It's not that the formula itself is defective. It's not possible to accept such a formula. Any formula of this type would be defective. It might be effective at one particular time, but a year later that formula is still fixed, you haven't changed it, and the conditions in the market has changed so that distortions occur which would then force the State to buy not at so-called market rates. |

(Discussion among members re. subsidies unclear).

(Comment from Bushre re. State loan programs unclear).

In this particular instance, I'm saying this formula simply will not work. It will encourage investment bankers to not bid on the bonds at times in certain maturities and under other conditions it will not only discourage them but it will make it impossible for them to submit bids for the bonds. So that in effect, the State would have to purchase those bonds... at rates which are not so-called market rates and therefore, the State would also lose the benefit of the additional income it could get by investing in non tax-exempt securities. (Discussion re. interest rates, guarantees, and more about yield curve unclear).

...If the yield curve proposed here is different from the yield curve in the market place, people are going to buy which is the more effective and in this instance they are not even going to be able to buy it because the State....

Kocsis: Do you think mixing the bonds together would still have that effect of lowering it?

Plaia: No, the market is the market. It makes its own curve and what makes the curve is the amount of money that's available for investment in a particular security range. For example, now we have a flattened yield curve where the differential between one year securities and thirty year securities is very narrow, the reason being that the banks do not have that much money available to put into tax-exempt securities. (Example of insurance companies having money to invest recently, compared to several years ago when natural disasters left them with less money but at that time banks had plenty of dough).

(Question from Malone re. municipal bonds and discussion unclear).

Malone: Re. commercial loans, to what extent are we likely to run into any problems for issuing tax-exempt bonds for that? How is this treated in other jurisdictions?

Plaia: One can under certain conditions issue tax exempt bonds for so-called industrial purposes, e.g. in the area of pollution control that's being done frequently. I believe the limit has recently been raised to \$10 million from 5 million. Most of the bonds that I do see issued, however, for pollution control run from 1-3 million. That has been defined as a genuine public purpose. I think that what would happen in this particular program would be that the very people who would come to you to receive the benefits from this kind of a program would not qualify... therefore, there is serious question here as to whether the bonds that would be sold would be tax exempt. In other words, the bonds would be sold using the income of the Permanent Fund to provide the... to make these loans and there might be very serious questions and it would have to be examined, yes.

Kocsis: It was examined by E.F. Hutton and they felt it would be tax exempt.

Plaia: But in all due respect to E.F. Hutton, they are investment bankers as I am and they are not tax counsel....

To continue with my concerns about the loan purposes as drafted here, re. the student loans as it's drafted here I would think that it would be an encouragement to default on the loans... It's not so much an invitation but it's certainly a suggestion that if you do default you won't be punished very severely. And in effect that's a subsidy and that's all right, too, except that it's a little unfair because in effect the person who does pay the loan off is subsidizing the person who doesn't pay it off.

HOUSE SPECIAL PERMANENT FUND COMMITTEE

PARTIAL TRANSCRIPT OF TESTIMONY BY THEODORE SWICK

10 APRIL 1979

Swick: ...From my experience and from examination of the procedures that are outlined in this proposed legislation (HB 279), this method of aid to local government, in my judgment, will not work at all unless the intent of this provision is to have the State, in fact, buy all of the bonds put up for sale by these various cities. If that's the goal, then I think this will work. If it's a provision that's trying to help the weaker cities, why that's fine, too, and I think it will happen. But the fact that the State will be making a bid that is presumably competitive with the marketplace; I think this thing is all out of shape and all out of reality. In fact, I don't believe it even could be restructured to work. It'd really almost be re-inventing the wheel....

First of all, it's based on the Bond Buyer average. The Bond Buyer is a newspaper that services the municipal bond industry... That average is made up of a determination of the market every Thursday morning in New York by a series of phone calls and is established by the market price for a 20-year a-rated or aa-rated bonds....

The municipal market is a over-the-counter market in the purest sense... On any particular list of bonds,... if you ask ten traders what they're worth, you're going to get a disparity in the price. That's the way the Bond Buyer average is made up....

For example, Matanuska-Susitna recently sold \$20 million in the public marketplace, a-rated bonds... If we took this formula in the bill and took

the Bond Buyer average as it was that day, that issue would've been bought by the State. And it would've been bought at prices which were probably 50/100s off the marketplace... The State would've paid on the average about \$7 per 1,000 more than competitive marketplace said the bonds were worth. I don't think the motive here was to provide a financing mechanism with State funds for a-rated (unclear) in Alaska. Now if it was, you've got it.

Again, based on ratings and on the index, the thing is I think unworkable because in the marketplace there are very subtle variations within a rating category... So when you apply a pricing mechanism based on credit rating as this does, there's no way that that formula is going to come up with a price that has any reality to the real market for those bonds.

Another flaw in it is we have what we call a yield curve and that deals with the fact that most municipal issues are issued in serial form... In so-called normal times, each year you go out in the life of the loan, and each principal installment attached to each year, has a yield on it higher than the one proceeding it. So as the bonds get longer in life the yield goes up, and as a result the interest rate goes up.

Now when you take an artificial arrangement, where you have every five years a set... where your yield curve is absolutely flat for five years... again, no reality to the marketplace at all.

...If the intent were to buy all the bonds put up for public sale by issuers in Alaska, then this thing would work like a charm. But you will not get any competition from Wall Street people.

Now the act goes on to say that the award will be made to a combination of bidders... that they will combine pieces of the best bids of several parties and come up with an award... From our point of view, on the

underwriting side in Wall Street, if that is the prospect we would not even bid on the bonds... The reason for that being that the way your procedure is structured, the chances are that if we were going to make a split award, the State would buy the shorter years and we on Wall Street would end up with the longer years.

Again, the award of the securities is made on the best cost of money to the issuer. (Describes calculation of arrival at "net interest cost")... What happens is we have our profit built into the short bonds and we make no money or sell at a loss for long bonds... So again, in the marketplace, this is all out of reality... I don't think this thing will work and that's an attempt to explain why. If the State, through this formula, takes off the bonds where we have some profit in it and leaves us the ones where we have some loss in it, we're only going to do that once, and probably never....

(Re. proposal in HB 414 for use of Permanent Fund income to guarantee debt for power projects, Swick gives some history of how he and other consultants to prior committee came up with idea)... The opportunity appeared to be there to take advantage of this very high quality cash flow to contribute to other needs in the State of Alaska and at the same time not invade or violate the spirit or intent of this trusted part of the income. So what we came up with led to this 595. Here's the way we envisioned it. That money comes out of very high grade investments and we took this towards another developing major problem in Alaska which was the demand for energy....

So this seemed a positive place to go to make an important contribution with this very high grade cash flow. The idea then would be that under the Power Authority Act... they are only permitted to fund "feasible"

projects... so first of all we want our projects to pass all those tests... and they'd be revenue projects which would be funded... in the bond market... the people who lend money to tax-exempt borrowers are used to that sort of thing....

So you have a project that already passed all those tests and seems feasible, but the lenders are still depending on estimates of experts that 10, 20, 30 years from now certain events are going to take place so that lender is going to get his money back. We can lend that guy a lot of comfort in his examination of an Alaska revenue project as to whether he wants to lend them any money or not by saying we will take and pledge the income from this very high grade investment account and we will have that available in the event that the predicted results of the revenue producing project did in fact not occur in any given year, you would have access to the cash flow from the Permanent Fund to make you whole and pay the interest and principal.

Now, one thing that would accomplish would be to drive down the cost of borrowing for that particular project... And I think you could come up with aa bonds... I could envision that guarantee providing a aa-rating for project security.

Secondly,... I could see the cost of borrowing for a project getting down to within about 50/100s of the cost of your general obligation borrowing. In other words, if it cost the State of Alaska $5\frac{1}{2}$ to borrow towards general obligation debt, I could envision these bonds selling for something like $5\frac{3}{4}$ or 6%, I think no more than 50/100s. I would go further to say that if that income flow guarantee was not there, the cost of borrowing could be anywhere from $6\frac{1}{2}$ to 7, $7\frac{1}{2}$, depending wholly on the

belief of the figures in the feasibility study and the convictions of the consulting engineer. Now, the important thing in this is the expectation that the project will be self-supporting and that the money will never be used. If it's needed it is there and it will be used, of course. But the expectation is that the project will be self-supporting and feasible.

Now what happens -- every year that those bonds are outstanding, you have an obligation to either pay interest or interest and principal on the project debt. If that year goes by, and the project in fact does cover its debt service obligations, then that flow of money from the Permanent Fund income is freed up and can be used for anything else. If you didn't do anything with it, it would go to the General Fund. The legislature could provide a second use for it.

In very simple terms, you're getting a double dip on that money. And if you want to go on to a development program and use the money for that, or if you wanted to subsidize some other lesser feasible project after the guarantee has been removed, you have it. And the delay is only a year, one year's income. Once it isn't needed, you can do anything you want to with it. It is not committed to the debt issue for 30-year bonds.

I think it's a valuable thing to do with that flow. I think it can perform a great service for you. You're not tying up any money in a long term way. It would be possible because in the way we handle cash flow in a revenue project is (technical description)....

So it serves a purpose, it drives down the cost of borrowing, but it's a one-shot deal on that dollar income. And once you don't need it, you can do whatever you want to with it. I wouldn't want any grant program... As I see it, I want to hold that trusted part of this Permanent Fund so

it can't be attacked at all. You could eat into the income as one of these projects goes by of course, but you could put into the agreements that... it can be recovered. You never violate the principal at all, and you never give anything away.

Malone: So the basic argument is this be done for projects that were, first of all, adjudged by standard criteria to be financially and economically feasible to begin with and that, secondly,... it'd be for those projects for which bonds could be sold but they'd be sold at higher rates than this would bring?

Swick: That's correct.

Freeman: What you're talking about here, isn't that what's normally referred to as double barrel bonds, guaranteed not only by the revenues but also backed up by funds...?

Swick: Yes,... it is... In a double barrel bond you have a revenue flow which is dedicated and you have a general obligation pledge which is there and they're both there all the time. But I guess that's right, once that revenue flow in any one year goes by then it's no longer an obligation... I hadn't thought of it that way. There are double barrel bonds that have a very enviable position in the market.

Haugen: Is it advisable to get yourself into a double barrel bond... heavy front end costs in the development of hydro projects... if you pledged revenue and other income so you have the ability to say to the borrower here's what I can offer you...?

Swick: If it's a revenue producing project, you have the income flow which is pledged to the bonds... but you also, in a classic double barrel situation, you also pledge to the lender or the bond holder that you will use the full taxing power of your community if necessary. And the result of that is to drive down the cost of borrowing because the lender sees

additional security for his protection.

Haugen: ...You're pledging the income of (unclear)?

Swick: No, I was talking about the double barrel bond itself. The suggestion here that this bill embraces is that you're not pledging anything but the revenues of the project. And the Permanent Fund income is there in the event that everybody who guessed what those revenues were going to be on a projected basis is totally wrong and the... revenue will not meet the obligations for bonds, then you have the Permanent Fund. But as I say... the project would have to pass the tests... in regards to what the Power Authority can do and what the legislature will in fact authorize them to do.

Hayes: I've heard the concern expressed about power projects that initially there is a lot of front end costs and possibility of negative cash flow, but as any power project proceeds on into time it becomes more and more viable in terms of cash flow to retire bonds. To the extent that guarantees from the Permanent Fund would lower the interest rate on the bonds, it would accommodate the negative cash flow, the problem in the earlier years which is part of the problem that Ernie's concerned about....

Swick: ...You would be saving somewhere in the neighborhood of 100 (unclear)... it's the difference between a 5% and a 6% bond.

Hayes: It's enough to possibly make a very tight situation a viable project.

Swick: The point of the feasibility test that any of these engineers make is what is the cost of money.

(Discussion of effect of difference of one percentage point).

Rhode: I want to clarify one point. The use of the earnings of the Permanent Fund as a guarantee was described as a double barrel and in a large sense I see that's true. But,... with a G.O. pledge you are at least initially

cutting down your bond capacity....

Swick: Absolutely. That is a commitment which lasts for the whole length of the debt.

Malone: We have a number of proposals to use income from the Permanent Fund to guarantee debt... As I understand the difference here is that, number one, that this would be done on a project basis and the particular project would meet standard criteria for practicality and feasibility. And that the debt or bonds would be issued pretty much on a project basis... so we wouldn't be aggregating apples and oranges....

Swick: That's my view. Again,... the point being is you can get something of value out of this income flow, you're putting it in very mild jeopardy if any, hopefully none, and it doesn't stop you from using it for whatever else at a very nearby later date. Two shots with the same dollar.

Malone: ...The reason this is probably possible in this case, does it rest on those points I raised or does it rest on other things? Because an argument made previously to the committee was that in the case of debt issued on the strength of a Permanent Fund income guarantee, that the creditor was going to look solely to the Permanent Fund income as his source of guarantee and was not going to pay any attention to the possibility of the project or the use of the proceeds paying back his loan that he's made. This is in cases where the Permanent Fund is guaranteeing revenue bonds that were issued to buy home mortgages or small business loans or fisherman's loans, etc. If there's a difference in this case, I want to isolate what it is....

Swick: Your points are right. That the project will be evaluated to the best of the professional peoples' ability that it will never in fact touch any of the Permanent Fund income money. That's the first series of tests but that's what it comes to. Now, if you had a loan program to which this revenue flow was pledged, particularly if it had multiple purposes, there is

no way that anyone could make a prediction that you were never going to touch that Permanent Fund money, because you're going to have a default ratio... You are right that the investor will forget about the ingredients of an issue unless in the marketing of the securities and the solicitation of lenders' money it is carefully pointed out that that's the intent of this thing and that's what the legislation says and that's the way it's going to be because it would be a very bad thing, in my judgment, if the cost of money as a result of this guarantee caused an unfeasible project to be made feasible. I don't think they should be in there.

Malone: Could you comment on the energy reserve account?

Swick: I don't believe that that fund, as it's presently legislated and constituted, is the basis for security for any borrowing. I just don't think it will work... Secondly, I think it could be a source of a grant program, whether it's an out-and-out contribution of, say, a couple of million dollars here and there... It could be used for early investigation of a project, for some of these front end costs we're talking about. The pot, if you will, as I understand it, renews itself at a fairly modest but regular rate each year... probably generating about, roughly, \$20 million a year. I think you can use that in conjunction with all these other things we've been talking about as a source of money for, in effect, a subsidy type item where you put a little equity into a project to help a small thing get off the ground. It could be used for these small hydro developments that I think are going to be developed all over the lower 48... I don't think it can be an ingredient of security for borrowing in its present state.

Malone: Because it's subject to appropriation?

Swick: That's correct.

Swick testimony
April 10, 1979
Page ten

Haugen: Way I understood, that fund would be used to leverage money for energy development projects.

Swick: In my judgment, I'm putting a squash on that. I'm saying that the way that money is generated and the way it's handled, it will not support debt, it will not support leverage, because the lender has no assurances that it's going to be there next year.

(End of testimony).

Introduced: 2/22/79
Referred: Special Permanent
Fund Committee and Finance

IN THE HOUSE

BY THE SPECIAL PERMANENT
FUND COMMITTEE

HOUSE BILL NO. 279

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska loan programs fund, the Alaska permanent fund, and state investment policy and other state revenues; and providing for an effective date."

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

* Section 1. AS 24.20.151 is amended to read:

Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTABLISHED. The Legislative Budget and Audit Committee is established as a permanent interim committee of the legislature. The establishment of the committee recognizes the need of the legislature for full-time technical assistance in accomplishing the fiscal analysis, budget review, investment oversight and post-audit functions.

* Sec. 2. AS 24.20.201(a) is amended by adding new paragraphs to read:

(8) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending or investment functions;

(9) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and the income from the permanent fund;

(10) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation investments and investment programs.

* Sec. 3. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.321. INVESTMENT OVERSIGHT DIVISION. The investment

1 oversight division is established as a permanent staff agency respon-
2 sible to the Legislative Budget and Audit Committee for the performance
3 of oversight and review functions to provide information on the policy
4 and performance of all agencies of the state which perform lending or
5 investment functions.

6 Sec. 24.20.331. STAFF. (a) The committee shall hire and deter-
7 mine the salary of the division director who shall serve both at the
8 direction and pleasure of the committee. The director shall serve as
9 head of the investment oversight division and, within the limits of the
10 budget approved by the committee, shall employ and determine the com-
11 pensation of the professional and clerical staff of the division.

12 (b) The director and members of the professional and clerical
13 staff shall not join or support a partisan political organization. This
14 prohibition does not prevent the director or members of the staff from
15 joining social organizations, expressing private opinion, registering as
16 to party or voting.

17 Sec. 24.20.341. DUTIES. The investment oversight division shall

18 (1) annually review the long-range operating plans of all
19 agencies of the state which perform lending or investment functions;

20 (2) review periodic reports from all agencies of the state
21 which perform lending or investment functions;

22 (3) present a complete report of investment programs, plans,
23 performance, and policies of all agencies of the state which perform
24 lending or investment functions to the Legislative Budget and Audit
25 Committee at the time the committee directs;

26 (4) present to the committee within 30 days after the con-
27 vening of each regular session a review of the report of the governor
28 under AS 37.07.020(d);

29 * Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

1 (d) The governor shall annually, before the convening of the
2 legislature, report to the legislature through the Legislative Budget
3 and Audit Committee the long-range fiscal and economic consequences of

4 (1) alternate levels of capitalization of the investment
5 funds of the state; and

6 (2) alternative investment policy for the general fund sur-
7 plus.

8 * Sec. 5. AS 37 is amended by adding a new chapter to read:

9 CHAPTER 13. ALASKA PERMANENT FUND.

10 Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15
11 of the state constitution, there is established as a separate fund the
12 Alaska permanent fund. The Alaska permanent fund consists of

13 (1) one hundred per cent of mineral lease bonuses after
14 deduction of amounts allocated

15 (A) to the Alaska Native Fund under the Alaska Native
16 Claims Settlement Act and implementing state legislation; and

17 (B) in AS 37.11.020 to the Alaska renewable resources
18 development fund;

19 (2) twenty-five per cent of all mineral lease rentals, royal-
20 ties, royalty sale proceeds, and federal mineral revenue sharing pay-
21 ments received by the state; and

22 (3) any other money appropriated or otherwise allocated by
23 law to the Alaska permanent fund.

24 (b) Payments due the Alaska permanent fund under (a) of this
25 section shall be made to the fund once each month.

26 (c) The Alaska permanent fund shall be managed by the Alaska
27 Permanent Fund Corporation established in this chapter.

28 Sec. 37.13.020. FINDINGS. The people of the state, by constitu-
29 tional amendment, have required the placement of at least 25 per cent of

1 all mineral lease rentals, royalties, royalty sale proceeds, and federal
2 mineral revenue sharing payments and bonuses received by the state into
3 a permanent fund. The legislature finds with respect to the Alaska
4 Permanent Fund Corporation that

5 (1) the corporation should provide a means of conserving a
6 portion of the state's revenues from mineral resources to the ultimate
7 benefit of future generations of Alaskans;

8 (2) the corporation's primary goal should be to maximize
9 total return while maintaining safety of principal;

10 (3) the corporation should be used as a savings device
11 managed to allow the maximum use of disposable income from the corpora-
12 tion as needed for purposes designated by law.

13 Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to
14 provide a mechanism for the management and investment of those permanent
15 fund assets allocated to the Alaska Permanent Fund Corporation in a
16 manner consistent with the findings established in sec. 20 of this
17 chapter.

18 Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is
19 established the Alaska Permanent Fund Corporation. The corporation is a
20 public corporation and government instrumentality in the Department of
21 Revenue managed by a board of trustees but has a legal existence inde-
22 pendent of and separate from the state. The purpose of the board is to
23 manage and invest the assets of the corporation in accordance with this
24 chapter.

25 Sec. 37.13.050. COMPOSITION OF BOARD OF TRUSTEES. (a) The board
26 of trustees consists of three members appointed by the governor and
27 confirmed by a majority of the members of the legislature in joint
28 session.

29 (b) The board shall annually elect a chairman from among its

1 members.

2 Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be
3 appointed for terms of four years, and they may be reappointed. Terms
4 shall be staggered. Initial terms shall be one member serving for two
5 years, one member serving for three years, and one member serving for
6 four years.

7 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may
8 remove a member of the board from office by and with the consent of a
9 majority of the members of the legislature in joint session. A removal
10 by the governor shall be in writing and state the reason for removal.
11 If the legislature is not in session, the governor may suspend a member
12 of the board. Upon suspension, a vacancy is not created but the member
13 of the board may not participate in board business and may not be
14 counted for purposes of establishing a quorum. The joint session of the
15 legislature shall be held within 30 days from the date of removal if the
16 removal occurs while the legislature is in session or within 30 days of
17 convening of the legislature if the legislature is not in session. If
18 the legislature refuses to consent to his removal, the member of the
19 board shall be reinstated to his position.

20 (b) A vacancy on the board shall be promptly filled by appointment
21 by the governor and confirmation by a majority of the members of the
22 legislature in joint session, and an appointee to fill a vacancy shall
23 hold office for the balance of the term for which his predecessor on the
24 board was appointed. If a vacancy arises on the board while the legis-
25 lature is not in session, the governor may appoint an interim member of
26 the board who shall exercise all powers of a permanent member of the
27 board until such time as the legislature in joint session fails to
28 confirm the interim appointment.

29 (c) A vacancy on the board does not impair the authority of a

1 quorum of the board to exercise all the powers and perform all the
2 duties of the board.

3 Sec. 37.13.080. QUALIFICATIONS OF BOARD MEMBERS. (a) No person
4 may be appointed to the board who has not been a resident of the state
5 for at least three years.

6 (b) No member of the board may hold any other state or federal
7 office, position or employment, either elective or appointive, except as
8 a member of the armed forces of the United States or of this state.

9 (c) At least one member of the board shall have recognized compe-
10 tence and wide experience in finance, investments, or other business
11 management-related field. No two members may be appointed to the board
12 who share substantially similar professional or occupational back-
13 grounds.

14 Sec. 37.13.090. QUORUM. Two members of the board constitute a
15 quorum for the transaction of business and the exercise of the powers
16 and duties of the board.

17 Sec. 37.13.100. COMPENSATION. Each member of the board shall
18 receive an honorarium of \$250 for each meeting day in attendance.
19 Members of the board are entitled to per diem and travel allowances as
20 provided by law for members of state boards and commissions.

21 Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and
22 determine the salary of an executive director. The executive director
23 may, with the approval of the board, select and employ additional staff
24 as necessary. No employee of the corporation, including the executive
25 director, may be a member of the board. The executive director and all
26 other employees of the board are in the exempt service under AS 39.25.

27 Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Members of the board
28 are subject to the provisions of AS 39.50.

29 (b) If a member of the board or an employee acquires, owns or

1 controls an interest, direct or indirect, in an entity or project in
2 which corporation assets are invested, he shall immediately disclose the
3 interest to the board. The disclosure is a matter of public record and
4 shall be included in the minutes of the board meeting next following the
5 disclosure.

6 Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule is
7 applicable to the board in the management and investment of permanent
8 fund assets. The prudent-man rule as applied to investments of the
9 corporation means that in making investments the board shall exercise
10 the judgment and care under the circumstances then prevailing which an
11 institutional investor of ordinary prudence, discretion, and intel-
12 ligence exercises in the management of large investments entrusted to it
13 not in regard to speculation but in regard to the permanent disposition
14 of funds, considering the probable income from them as well as probable
15 safety of capital.

16 (b) The corporation assets may only be used for income-producing
17 investments.

18 (c) The board shall seek to maintain a reasonable diversification
19 among corporation investments unless under the circumstances it is
20 clearly prudent not to do so.

21 (d) The board shall submit long-range and quarterly investment
22 reports to the Legislative Budget and Audit Committee.

23 (e) The corporation may not borrow funds or guarantee from princi-
24 pal of the fund the obligations of others.

25 (f) The board may enter into and enforce all contracts necessary,
26 convenient or desirable for purposes of the corporation. It may con-
27 tract with the division of treasury of the Department of Revenue for
28 services.

29 (g) Subject to (a) and (b) of this section, the board may invest

1 corporation assets in obligations of, or obligations insured or guaran-
2 teed by, the United States or agencies or instrumentalities of the
3 United States; corporate securities which under the Securities Act of
4 1933 are freely marketable; and short-term investments which meet the
5 requirements of (a) and (b) of this section except for the term of the
6 investments.

7 (1) No portion of the assets of the fund may be used in the
8 purchase of stock of a corporation which is not paying dividends on that
9 stock in cash at the time of purchase; nor in the purchase of bonds of a
10 corporation, upon which any regular interest payment has been defaulted
11 within five years before purchase, except bonds never in default but
12 which have been outstanding for less than five years.

13 (2) No portion of the assets of the corporation may be used
14 in the purchase of stock if immediately following the purchase the
15 proportionate market value of all stocks held by the corporation would
16 exceed 30 per cent of the assets of the corporation.

17 (h) Subject to (a) and (b) of this section, the board may invest
18 corporation assets in

- 19 (1) Federal Housing Administration mortgages;
20 (2) Federal Veterans Administration mortgages;
21 (3) conventional residential mortgages if the offering fi-
22 nancial institution retains at least 25 per cent of the mortgage.

23 (i) To qualify as a mortgage or secured loan which may be pur-
24 chased by the board under (h) of this section, the mortgage or secured
25 loan shall

- 26 (1) be secured by real estate in the state;
27 (2) have as a mortgagor an Alaska resident or a corporation
28 in which at least 60 per cent of the stock is owned by Alaska residents;
29 (3) be certified by the originating financial institution

1 that the loan being sold has been made in compliance with law and that
2 liens supporting the loan have been perfected;

3 (4) have no initial closing fees or service fees which exceed
4 one-half of one per cent, excluding closing costs.

5 (j) The board may purchase loans provided for in (h) of this
6 section only with the approval of each purchase by the division of
7 Alaska loan programs of the Department of Commerce and Economic Develop-
8 ment, and the loans may be purchased only from financial institutions
9 which are operating under the national banking laws, federal savings and
10 loan laws, or under the provisions of AS 06.05, AS 06.15, AS 06.25 or
11 AS 06.30.

12 (k) The board shall establish and from time to time as necessary
13 modify guidelines for the investment of the corporation's assets.
14 Before adoption of any investment guidelines, the guidelines shall be
15 reported to the Legislative Budget and Audit Committee for review and
16 comment.

17 (l) Nothing in this section may be interpreted to preclude in-
18 state investments that have a risk level and expected yield comparable
19 to alternative investment opportunities.

20 Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year,
21 the total amount of losses on the sales of securities, not offset by
22 gains on the sales of securities during that year, shall be computed,
23 with a portion of these losses to be deducted each fiscal year from the
24 interest and dividend income and the resulting amount of interest and
25 dividend income added to the principal of the fund. Losses taken on the
26 sales of bonds shall be accumulated over a period equal to the average
27 remaining life of the bonds sold, and losses taken on the sales of
28 stocks shall be accumulated within a period of five years, unless these
29 losses are offset by gains on future sales of securities. In any fiscal

1 year in which the gains on the sales of securities exceed the losses on
2 the sales of securities, the excess shall be added to the principal of
3 the fund.

4 Sec. 37.13.150. INCOME. (a) The interest and dividends received
5 in a year are the income of the corporation for that year. The income
6 available for disbursement shall be determined on an averaging basis.
7 For the first five years, income will be the simple averaging of the
8 annual current return at cost. Subsequently, there will be a moving
9 average current return, in which the latest fiscal year will replace the
10 oldest year. The income available for disbursement will be the lesser
11 of the latest fiscal year's income, or the average annual current income
12 for the past five fiscal years of the fund at cost, and after adjustment
13 for capital losses charged to that fiscal year.

14 (b) When 50 per cent of the income of the corporation available
15 for distribution, as certified by the commissioner of revenue, exceeds
16 the amount estimated by the commissioner as equal to the amount of the
17 tax credits allowed by AS 43.20.015, the credit allowed in AS 43.20.-
18 015(b)(3) shall be \$300 plus an additional amount equal to the quotient
19 obtained by dividing that excess by the number of eligible taxpayers
20 claiming credit under AS 43.20.015(b)(3).

21 Sec. 37.13.155. MORTGAGE LOSS RESERVE ACCOUNT. The board may
22 establish a mortgage loss reserve account for the purpose of protecting
23 the financial integrity of the fund.

24 Sec. 37.13.160. BOARD BUDGET. The board's operating budget is by
25 appropriation from the general fund and is subject to the Executive
26 Budget Act (AS 37.07).

27 Sec. 37.13.170. AUDITS. The Legislative Budget and Audit Commit-
28 tee shall provide for an annual post audit and annual operational and
29 performance evaluations of the corporation's investments and investment

1 programs.

2 Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than Septem-
3 ber 30 of each year, the board shall publish a report of the corporation
4 for distribution to the governor, legislature, and the public. The
5 report shall be written in easily understandable language. The report
6 must include financial statements audited by independent outside audi-
7 tors, a statement of the amount of money received by the permanent fund
8 from each investment during the period covered, a statement of corpora-
9 tion investments including an appraisal at market value, a description
10 of corporation investment activity during the period covered by the
11 report, a comparison of the corporation performance with the intended
12 goals contained in AS 37.13.020, an examination of the impact of the
13 investment criteria of this chapter on the corporation portfolio with
14 recommendations for any needed changes and any other information the
15 board believes would be of interest to the governor, the legislature,
16 and the public. The annual income statement and balance sheet of the
17 corporation shall be published in at least one newspaper in each judi-
18 cial district. The income statement and balance sheet for the two
19 fiscal years preceding the publication of the election pamphlet under
20 AS 15.57 shall be included in that pamphlet. The board may also publish
21 other reports it considers desirable to carry out its purpose.

22 Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all
23 taxes and assessments in the state. All security instruments issued by
24 the corporation, their transfer, and their income are exempt from all
25 taxes and assessments in the state.

26 Sec. 37.13.200. POLITICAL ACTIVITIES. The members of the board of
27 trustees and employees of the corporation may not engage in partisan
28 political activities. The resources of the corporation may not be used
29 to finance any partisan political activities.

1 Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the
2 possession of the corporation is a public record, except that infor-
3 mation which discloses the particulars of the business or affairs of a
4 private enterprise or investor is confidential and is not a public
5 record. Confidential information may be disclosed only for the purposes
6 of an official law enforcement investigation or when its production is
7 required in a court proceeding. These restrictions do not prohibit the
8 publication of statistics presented in a manner that prevents the iden-
9 tification of particular reports, items, persons, or enterprises.

10 * Sec. 6. AS 39.25.110 is amended by adding a new paragraph to read:

11 (22) members of the board of trustees, the executive director,
12 and staff of the Alaska Permanent Fund Corporation.

13 * Sec. 7. AS 39.50.200(9) is amended by adding a new subparagraph to
14 read:

15 (QQ) Alaska Permanent Fund Corporation Board of Trustees.

16 * Sec. 8. TRANSITION. The commissioner of revenue shall transfer all
17 funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation
18 established by this Act after request for transfer is made by the corporation
19 board of trustees.

20 * Sec. 9. AS 45 is amended by adding a new chapter to read:

21 CHAPTER 96. ALASKA LOAN PROGRAMS FUND.

22 Sec. 45.96.010. PURPOSE. Efficient use of the capital resources
23 of the state will be promoted by creating a single loan fund to provide
24 a single source from which potential users can acquire a state loan and
25 obtain information about existing federal or private loan programs which
26 will better serve the needs of the user or which will complement a
27 proposed state loan. A single state source of lending will provide
28 strong assurance of repayment of its loans and thereby lower the cost of
29 borrowing to the state. The purpose of the loan programs fund is to

1 provide the lowest possible interest costs to Alaska borrowers con-
2 sistent with sound financial practices and to make available to all
3 sectors of the Alaska economy loans including long-term financing. A
4 strong, single loan source, by being available to secure interest rates
5 and terms better than those available to loan funds limited in size for
6 a specific purpose, will make a significant contribution to lowering
7 costs of living for Alaska residents and costs of operations in the
8 private and public sector.

9 Sec. 45.96.020. CREATION OF FUND AND DIVISION. (a) There is
10 created within the Department of Commerce and Economic Development a
11 special fund of the state known as the Alaska loan programs fund.

12 (b) There is established within the Department of Commerce and
13 Economic Development the division of Alaska loan programs. The director
14 of the division is in the classified service under AS 39.25 and shall
15 receive an annual salary within range 27 of the salary schedule estab-
16 lished in AS 39.27.011 or within one range below that on which the
17 highest paid deputy commissioner in the Department of Commerce and
18 Economic Development is paid if that range is higher than Range 27. In
19 order to qualify for the position of director, a person must be gradu-
20 ated from college and have at least eight years of supervisory or
21 administrative experience in loan management.

22 (c) The division of Alaska loan programs shall manage the loan
23 programs fund in accordance with secs. 10 - 490 of this chapter.

24 Sec. 45.96.030. REVENUE BONDING AUTHORITY. (a) The state bond
25 committee may issue bonds and bond anticipation notes in order to pro-
26 vide funds to carry out the purposes of the fund.

27 (b) The principal and interest on these bonds or bond anticipation
28 notes are payable from assets of the fund. Bond anticipation notes may
29 be payable from the proceeds of the sale of bonds or from the proceeds

1 of sale of other bond anticipation notes or, if bond or bond anticipa-
2 tion note proceeds are not available, the bond anticipation notes may be
3 paid from other assets of the fund. Bonds or bond anticipation notes
4 may also be secured by a pledge of a grant or contribution from the
5 federal or state government, a corporation, association, institution or
6 person, or a pledge of money, income, or revenues of the fund from any
7 source.

8 (c) Bonds or bond anticipation notes may be issued as provided by
9 the state bond committee, in one or more series and shall (1) be dated;
10 (2) bear interest at the prescribed rate per year or within the maximum
11 rate; (3) be in a certain denomination or form, either coupon or regis-
12 tered; (4) carry the conversion or registration provisions; (5) have
13 rank or priority; (6) be executed in a certain manner and form; (7) be
14 payable from the sources in the medium of payment and place or places
15 inside or outside the state; (8) be subject to authentication by a
16 fiscal agent; and (9) be subject to terms of redemption, with or without
17 premium as the resolution of the bond committee may provide. Bond
18 anticipation notes mature at a time determined by the commissioner of
19 revenue. Bonds mature at a time determined by the state bond committee.
20 Before the preparation of definitive bonds or bond anticipation notes,
21 the state bond committee may issue interim receipts or temporary bonds
22 or bond anticipation notes, with or without coupons, exchangeable for
23 bonds or bond anticipation notes when the definitive bonds or bond
24 anticipation notes have been executed and are available for delivery.

25 (d) Bonds or bond anticipation notes may be sold in the manner, on
26 the terms, and at the price the state bond committee determines.

27 (e) If an officer whose actual or facsimile signature appears on
28 any bonds or notes or coupons attached to them ceases to be an officer
29 before the delivery of the bond, note or coupon, his signature is valid

1 as if he had remained in office until delivery.

2 (f) In authorizing or issuing bonds or bond anticipation notes,
3 the state bond committee may, with holders of the bonds or bond antici-
4 pation notes, make covenants as may be necessary or desirable, to better
5 secure bonds or notes or which, in the discretion of the committee, will
6 tend to make bonds or notes more marketable and shall, for each issue,
7 create a principal and interest account for repayment of the principal
8 and interest of that issue.

9 Sec. 45.96.040. VALIDITY OF PLEDGE. The pledge of assets or
10 revenues of the fund to the payment of the principal or interest of
11 obligations of the fund is valid and binding from the time the pledge is
12 made, and assets or revenues pledged are immediately subject to the lien
13 of the pledge without physical delivery or further action. The lien of
14 a pledge is valid and binding against all parties having claims of any
15 kind in tort, contract or otherwise against the fund, regardless of
16 whether those parties have notice of the lien of the pledge. Nothing
17 prohibits the fund from selling assets subject to a pledge, except that
18 a sale may be restricted by the resolution providing for the issuance of
19 the obligations.

20 Sec. 45.96.050. REMEDIES. A holder of obligations issued under
21 the provisions of this chapter or coupons attached to them if not re-
22 stricted by the resolution, either at law or in equity, may enforce all
23 rights granted under the coupons or under any other contract executed by
24 the fund under this chapter, and may enforce and compel the performance
25 of all duties required by this chapter to be performed by the fund or by
26 an officer of it.

27 Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and
28 interest coupons attached to the obligations are negotiable instruments
29 under the laws of this state, subject only to applicable registration

1 provisions.

2 Sec. 45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT. Obligations
3 issued under the provisions of this chapter are securities in which all
4 public officers and public bodies of the state and its political sub-
5 divisions, all insurance companies, trust companies, banking associ-
6 ations, investment companies, executors, administrators, trustees and
7 other fiduciaries may properly and legally invest funds, including
8 capital in their control or belonging to them. These obligations may be
9 deposited with the state or municipal officer of an agency or political
10 subdivision of the state for any purpose for which the deposit of bonds,
11 notes or obligations of the state is authorized by law.

12 Sec. 45.96.080. REFUNDING OBLIGATIONS. (a) The fund may provide
13 for the issuance of refunding obligations for the purpose of refunding
14 outstanding obligations issued under the provisions of this chapter, or
15 bonds issued by the state, political subdivisions of the state, or
16 agencies or instrumentalities of the state, including the payment of
17 redemption premium on them and interest accrued or to accrue to the date
18 of redemption of the obligations. The issuance of the obligations, the
19 maturities and other details of them, the rights of the holders of them,
20 and the rights, duties and obligations of the fund in respect of them
21 are governed by the provisions of this chapter which relate to the
22 issuance of appropriate obligations.

23 (b) Refunding obligations may be sold or exchanged for outstanding
24 obligations issued under this chapter. If sold, the proceeds may be
25 applied, in addition to other authorized purposes, to the purchase,
26 redemption or payment of the outstanding obligations. Pending the
27 application of the proceeds of refunding obligations, with any other
28 available funds, to the payment of the principal (accrued interest and
29 any redemption premium on the obligations being refunded, and if so

1 provided or permitted in the authorization for issuance of the refunding
2 obligations, to the payment of any interest on the refunding obligations
3 and any expenses in connection with the refunding), the proceeds may be
4 invested in direct obligations of, or obligations the principal of and
5 the interest on which are unconditionally guaranteed by, the United
6 States of America which mature or which will be subject to redemption,
7 at the option of the holders of them, not later than the respective
8 dates when the proceeds, together with the interest accruing on them,
9 will be required for the purposes intended.

10 Sec. 45.96.090. CREDIT OF STATE NOT PLEDGED. Obligations issued
11 under the provisions of this chapter are not a debt, liability or obli-
12 gation of the state but are payable solely from the revenues or assets
13 of the fund. Each obligation issued under this chapter shall contain on
14 its face a statement that the fund is not obligated to pay it nor the
15 interest on it except from the revenues or assets pledged for it and
16 that neither the faith and credit nor the taxing power of the state or
17 of a political subdivision of the state is pledged to the payment of the
18 principal of or interest on the obligation.

19 Sec. 45.96.100. TAX EXEMPTION. All property of the fund is public
20 property devoted to an essential public and governmental function and
21 purpose and is exempt from all taxes of the state or a political sub-
22 division of the state. All bonds issued under this chapter are issued
23 by a body corporate and public of this state and for an essential public
24 and governmental purpose, and the bond and the interest and income on
25 and from the bonds and all income of the fund are exempt from taxation
26 except for transfer, inheritance and estate taxes.

27 Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee may
28 sell bonds at public or private sale until July 1, 1984. After July 1,
29 1984, the state bond committee may sell bonds only at public sale.

1 (b) Before selling an issue or series of bonds at public sale, the
2 state bond committee shall give notice inviting sealed bids in such
3 manner as it may prescribe. If satisfactory bids are received, the
4 bonds offered for sale shall be awarded to the highest responsible
5 bidder. If the state bond committee determines that the bids received
6 are not satisfactory as to price or responsibility of the bidders, it
7 may reject all bids received.

8 Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of
9 securing obligations of the fund, a special account called the allocated
10 reserve account is established. The amounts necessary to fund the
11 capital reserve account established under sec. 140 of this chapter, the
12 fire insurance and liability reserve account under sec. 160 of this
13 chapter, and the loss reserve account under sec. 150 of this chapter are
14 allocated to those accounts to the extent appropriations for that pur-
15 pose are available. All other expenditures from this account shall be
16 in accordance with annual appropriations.

17 Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose
18 of securing obligations of the fund, a special account called the un-
19 allocated reserve account is established. The unallocated reserve
20 account consists of any amounts remaining in the general fund at the end
21 of a fiscal year which have not been obligated.

22 (b) The legislature may, by appropriation, fund the allocated
23 reserve account created in sec. 120 of this chapter from funds in the
24 unallocated reserve account.

25 Sec. 45.96.130. DEBT SERVICE RESERVE ACCOUNT. For the purpose of
26 securing each issue of its obligations, the fund shall establish a
27 special account called the debt service reserve account and shall pay
28 into the account from the proceeds of the sale of that issue of its
29 obligations the maximum amount permissible under federal law and regu-

1 lations for tax exempt obligations which may be invested without limi-
2 tation as to yield. All money held in a debt service reserve account
3 may be used as required, when money is not available from the principal
4 and interest account or the capital reserve account, solely for (1) the
5 payment of the principal of obligations, (2) the purchase or redemption
6 of obligations, (3) the payment of interest on obligations, or (4) the
7 payment of any redemption premium required to be paid when those obli-
8 gations are redeemed before maturity. Any amount remaining in a debt
9 service reserve account when the issue the account secures is fully
10 retired shall be paid to the allocated reserve account.

11 Sec. 45.96.140. CAPITAL RESERVE ACCOUNT. For the purpose of se-
12 curing each issue of its obligations, the fund shall establish a special
13 account called the capital reserve account. The commissioner of revenue
14 shall pay into that account from the allocated reserve account upon
15 establishment an amount equal to five per cent of the principal amount
16 of the obligations issued and sold and upon subsequent sales, if any, of
17 obligations of the issue secured, an additional amount equal to five per
18 cent of the principal amount of the obligations sold. At the end of
19 each fiscal year the commissioner of revenue shall withdraw from each
20 capital reserve account and pay to the allocated reserve account any
21 amount in the account in excess of five per cent of the remaining prin-
22 cipal balance of the obligations secured or, if the amount in the ac-
23 count is less than five per cent of the remaining principal balance of
24 the obligations secured, pay into the account from the allocated reserve
25 account the amount necessary to bring the reserve to five per cent. All
26 money held in a capital reserve account may be used as required, when
27 money is not available from the principal and interest account, solely
28 for (1) the payment of the principal of obligations, (2) the purchase or
29 redemption of obligations, (3) the payment of interest on obligations or

1 (4) the payment of any redemption premium required to be paid when those
2 obligations are redeemed before maturity. Income or interest earned by
3 a capital reserve account shall be paid to the allocated reserve account
4 established by sec. 120 of this chapter. Any amount remaining in a
5 capital reserve account when the issue the account secures is fully
6 retired shall be paid to the allocated reserve account.

7 Sec. 45.96.150. LOSS RESERVE ACCOUNT. (a) For the purpose of
8 protecting the financial integrity of the fund, a special account called
9 the loss reserve account is established. The commissioner of revenue
10 shall pay into that account from the allocated reserve account an amount
11 equal to five per cent of the estimated total amount of all loans to be
12 made by the fund during the first fiscal year of operation. At the
13 first of the succeeding fiscal year and each fiscal year thereafter, the
14 commissioner shall pay into the fund from the allocated reserve account
15 the amount necessary to bring the balance of this account to five per
16 cent of the total amount of loans projected to be outstanding during
17 that fiscal year.

18 (b) If during the fiscal year the total amount of loans outstand-
19 ing exceeds the amount projected to be outstanding, the commissioner of
20 revenue shall pay into this account from the allocated reserve account
21 the sum needed to bring the balance of this account to five per cent of
22 the amount of loans outstanding.

23 (c) The one per cent difference between the rate of interest paid
24 by a borrower and the rate of interest paid by the fund required by
25 sec. 430 of this chapter shall be allocated to the loss reserve account.

26 (d) Money in the loss reserve account may only be used for losses
27 realized from loans made under this chapter, except when, at the begin-
28 ning of a fiscal year, the balance of this account exceeds five per cent
29 of the remaining principal balance of the total amount of loans

1 projected to be outstanding during the fiscal year, the amount in excess
2 of five per cent shall be paid to the allocated reserve account until
3 all amounts paid to the loss reserve account and the capital reserve
4 account have been paid and then to the earned income account of the loan
5 programs fund.

6 Sec. 45.96.160. FIRE INSURANCE AND LIABILITY RESERVE ACCOUNT. The
7 fund may issue loans without requiring proof of insurance against fire
8 and liability if an additional charge of six-tenths of one per cent per
9 year is made. The receipts from this charge shall be deposited in the
10 fire insurance and liability reserve account and may only be used to
11 reimburse the fund for losses which occur on property for which the
12 charge provided by this section was in effect at the time of loss.

13 Sec. 45.96.170. INVESTMENT OF RESERVE ACCOUNTS. (a) The director
14 of the division of treasury in the Department of Revenue shall invest
15 money in the reserve accounts established by this chapter, other than
16 funds in the debt service reserve account, only in

17 (1) obligations of, or obligations insured or guaranteed by
18 the United States or agencies or instrumentalities of the United States;

19 (2) obligations secured by reserves paid in by the United
20 States or agencies or instrumentalities of the United States or obliga-
21 tions of corporations in which the United States is a shareholder or
22 member; or

23 (3) corporate bonds rated "A" or better by a nationally
24 recognized rating service.

25 (b) Funds in the debt service reserve account may only be invested
26 in obligations described in (a)(1) or (2) of this section.

27 Sec. 45.96.180. INVESTMENTS. (a) All investments of the fund
28 cash balances and of reserves for specific bond issues or statutorily
29 required reserves are managed for the fund by the director of the

1 division of treasury in the Department of Revenue. The director shall
2 determine investment policy and manage the investments of the fund under
3 the same criteria applicable to other state investments he manages.

4 (b) The director of the division of treasury shall provide monthly
5 reports to the Legislative Budget and Audit Committee relating to the
6 investment of funds described in (a) of this section, including

- 7 (1) a summary of long-range and short-term investment policy;
8 (2) a list of investments made during the previous month;
9 (3) an evaluation of the performance of investments made;
10 (4) other information requested by the budget and audit
11 committee.

12 Sec. 45.96.190. BUDGET. The operating budget is by appropriation
13 from the general fund unless the legislature specifically appropriates
14 from the unallocated reserve account. The operating budget is subject
15 to the Executive Budget Act (AS 37.07).

16 Sec. 45.96.200. ACCOUNTING AND REPORTS. Accounting for the fund
17 shall be provided by the Department of Administration. Reports shall be
18 made by that department to the Department of Revenue, the Department of
19 Commerce and Economic Development, and the Legislative Budget and Audit
20 Committee at least once a month. These reports shall include an itemi-
21 zation of each loan which has been in default for a period in excess of
22 30 days and the measures taken for each to insure compliance with terms
23 and conditions of the loan. The Legislative Budget and Audit Committee
24 shall provide quarterly reports to the legislature summarizing the
25 information it receives under this section and under secs. 180(b) and
26 240(b) of this chapter and including comments and suggestions the com-
27 mittee determines to be of interest to the legislature relating to the
28 administration of the loan program. Other reports shall be made as
29 prescribed by the Department of Commerce and Economic Development.

1 Sec. 45.96.210. LOAN PROCEDURES. (a) The director of the divi-
2 sion of Alaska loan programs shall establish district loan offices in
3 Juneau, Fairbanks, and Anchorage and may establish other loan offices as
4 necessary which shall be headed by district directors. The office shall
5 provide information concerning the loan programs under this chapter,
6 other state loan programs, state grant programs, federal loan or grant
7 programs, and, to the extent feasible, private loans.

8 (b) Each district loan office shall include a veterans' loans
9 section. The veterans' loans section shall process loan applications
10 from applicants who meet the eligibility requirement of sec. 440 of this
11 chapter. The veterans' loan section shall also provide information and
12 assistance to veterans relating to loan applications under this chapter,
13 other state loan programs or state grant programs, federal loan or grant
14 programs, and to the extent feasible, private loans.

15 Sec. 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE. (a)
16 There is established in the Department of Commerce and Economic De-
17 velopment the Alaska Loan Programs Evaluation Committee consisting of
18 the directors, or their designees, of the following divisions: (1) the
19 division of economic enterprises in the Department of Commerce and
20 Economic Development, (2) the division of collections in the Department
21 of Revenue, and (3) the division of Alaska loan programs in the De-
22 partment of Commerce and Economic Development.

23 (b) The committee shall notify recipients of loans under the pro-
24 visions of this chapter who have been delinquent in their loan repay-
25 ments for a period in excess of 30 days. Upon notification of delin-
26 quency, the borrower may request reevaluation and technical assistance
27 from the committee. If the borrower requests reevaluation, the com-
28 mittee shall consider the terms and conditions of the loan as well as
29 all other pertinent information to determine whether there are feasible

1 alternative terms and conditions which will protect the interest of the
2 state and prevent the default of the loan.

3 (c) In performing the duties described in (b) of this section, the
4 committee shall have access to all nonconfidential records, data, in-
5 formation, and statistics of all departments, boards, commissions,
6 agencies, and institutions of the state. The committee shall also have
7 access to any records or other information of the borrower which are
8 pertinent to its investigation. Failure on the part of the borrower to
9 provide the records or information shall be grounds for refusal to
10 reevaluate.

11 (d) If the committee determines that alternative terms and con-
12 ditions are available which will protect the interest of the state and
13 prevent default of the loan, it may renegotiate the loan in accordance
14 with those terms.

15 Sec. 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS. (a) There
16 is established within the Department of Revenue the division of col-
17 lections. The director of the division is in the classified service
18 under AS 39.25 and shall receive an annual salary within range 27 of the
19 salary schedule established in AS 39.27.011 or within one range below
20 the range on which the highest paid deputy commissioner in the depart-
21 ment is paid if that range is higher than range 27. In order to qualify
22 for the position of director, a person must be an attorney licensed to
23 practice in this state with at least four years of practice in business
24 law and business practices.

25 (b) If a borrower who has received notification of delinquency in
26 accordance with sec. 220 of this chapter does not request reevaluation,
27 or if the evaluation committee determines that renegotiation of the
28 existing terms and conditions is not feasible or justified, and the loan
29 is not brought current within 30 days after the notification of delin-

1 quency is sent, the loan shall be transferred to the loss reserve ac-
2 count and transmitted for collection to the division of collections. A
3 monthly report of the status of the collection effort shall be made to
4 the Legislative Budget and Audit Committee. The total principal and
5 interest due shall be transferred from the loss reserve account to the
6 fund upon assignment of each loan.

7 Sec. 45.96.250. LOAN PURPOSES. Loans may be made from the fund
8 for residential housing, commercial purposes, public purposes, and
9 education.

10 Sec. 45.96.260. RESIDENTIAL HOUSING. In addition to other powers
11 granted in this chapter, the director of the division of Alaska loan
12 programs may, for the purpose of providing housing for persons who meet
13 the eligibility requirements of sec. 370 of this chapter,

14 (1) make or participate in the making of construction loans
15 from the fund to sponsors, developers, and builders of land development
16 or residential housing;

17 (2) make or participate in the making of mortgage loans from
18 the fund to sponsors, developers, builders, and purchasers of residen-
19 tial housing;

20 (3) purchase or participate in the purchase of mortgage loans
21 made from the fund to sponsors, developers, builders, owners, and pur-
22 chasers of residential housing;

23 (4) acquire real property, or any interest in real property,
24 in its own name, by purchase, transfer or foreclosure, when the acqui-
25 sition is necessary or appropriate to protect any loan in which the fund
26 has an interest; sell, transfer and convey any such property to a buyer;
27 and, if the sale, transfer or conveyance cannot be effected with rea-
28 sonable promptness or at a reasonable price, rent or lease the property
29 to a tenant pending the sale, transfer or conveyance;

1 (5) sell, at public or private sale, to any purchaser, in-
2 cluding the Federal National Mortgage Association, all or any part of a
3 mortgage or other instrument or document securing a construction, land
4 development, mortgage or temporary loan of any type permitted by this
5 section;

6 (6) purchase, in order to meet the requirements of the sale
7 of its mortgages to the Federal National Mortgage Association, stock of
8 the Federal National Mortgage Association;

9 (7) sell all or any part of a mortgage or other instrument or
10 document securing a construction, land development, mortgage or tempo-
11 rary loan of any type permitted by this section to the teachers' re-
12 tirement system (AS 14.25) if the borrower is a teacher subject to the
13 provisions of AS 14.25 or to the public employees' retirement system
14 (AS 39.35) if the borrower is a public employee included in the system;
15 however, the security instrument shall be fully guaranteed as to payment
16 of principal and interest by the fund.

17 Sec. 45.96.270. COMMERCIAL LOANS. (a) In addition to other
18 powers granted in this chapter, the director of the division of Alaska
19 loan programs may make loans from the fund to

20 (1) individual farmers, homesteaders, and partnerships or
21 corporations composed of farmers and homesteaders, for development of
22 farms, storage and processing of farm produce, livestock, machinery and
23 equipment, and farm irrigation;

24 (2) individual commercial fishermen who have had a commercial
25 fishing license for at least one of the previous five years, for the
26 repair, restoration or upgrading of existing vessels and gear and for
27 the purchase of entry permits and gear and the construction and purchase
28 of vessels; loans made under this paragraph are subject to the provi-
29 sions of secs. 295 and 297 of this chapter;

1 (3) local development companies to assist the new financing
2 of industrial and manufacturing plant construction, conversion or ex-
3 pansion, including the acquisition of land, to the extent necessary to
4 secure a loan for a portion of the cost by the Small Business Adminis-
5 tration under 15 U.S.C. sec. 696 (Section 502 of the Act of Congress
6 entitled "Small Business Investment Company Act of 1958" as amended);

7 (4) develop, rehabilitate, and expand business activities in
8 the state;

9 (5) child care facilities in the state to comply with the
10 appropriate licensing standards for child care facilities or to comply
11 with the requirements for certification by the Department of Education
12 subject to the following conditions:

13 (A) the applicant shall submit to the fund a plan for
14 the use of the loan funds which is approved by the commissioner of
15 commerce and economic development;

16 (B) the applicant shall demonstrate that the proposed
17 loan will enable the child care facility to obtain a license from
18 the Department of Health and Social Services or a certificate from
19 the Department of Education;

20 (C) the applicant shall apply to the Department of
21 Community and Regional Affairs for and receive a certificate of
22 need;

23 (6) small businesses to acquire, finance or refinance or
24 equip businesses;

25 (7) loggers and forest products manufacturers and processors
26 for logging operations and equipment, forest products manufacturing or
27 processing plants, and for working capital for logging operations and
28 forest products manufacturing or processing;

29 (8) other businesses for equipment and operations related to

1 harvesting, manufacturing and processing other renewable or nonrenewable
2 resources in the state.

3 (b) Notwithstanding the provisions of secs. 410 and 420 of this
4 chapter, a loan under (a)(2) of this section may not run longer than 15
5 years or exceed 90 per cent of the appraised value of the collateral
6 used to secure the loan.

7 Sec. 45.96.280. CERTIFICATE OF NEED FOR CHILD CARE FACILITIES.

8 (a) The Department of Community and Regional Affairs shall determine
9 whether to award a certificate of need to child care facilities applying
10 for a loan under sec. 270(7) of this chapter on the basis of the fol-
11 lowing criteria:

12 (1) the number of existing slots in licensed child care
13 facilities in the geographic area of the applicant;

14 (2) the number of children in the geographic area who need
15 child care;

16 (3) the proposed capacity of the applicant facility;

17 (4) other factors which are determined to be relevant by the
18 department and are set out in regulations adopted by the Department of
19 Community and Regional Affairs.

20 (b) The Department of Community and Regional Affairs shall submit
21 its decision and the reasons for it to the applicant within 60 days of
22 receipt of the application.

23 Sec. 45.96.295. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under
24 sec. 270(2) of this chapter shall be secured by a first lien and appro-
25 priate security agreements, except that a lien in favor of the state is
26 not required for loans guaranteed fully by the federal government under
27 the Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86
28 Stat. 909), as amended. In the case of a security agreement given to
29 secure a loan made under sec. 270(2) of this chapter and covering a

1 vessel documented under the laws of the United States and so long as the
2 Ship Mortgage Act of 1920 (46 U.S.C. secs. 911 - 984; 41 Stat. 1000), as
3 amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 842; 39
4 Stat. 728), as amended, remain ambiguous with respect to whether or not
5 a state or state agency qualifies as a citizen of the United States for
6 purposes of those Acts, the first lien requirement of this section may
7 be satisfied by the recordation and endorsement of a first preferred
8 ship mortgage under the Ship Mortgage Act of 1920, and by perfection of
9 a security interest under the Uniform Commercial Code - Secured Trans-
10 actions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of
11 Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the
12 department of the interest in a vessel documented under the laws of the
13 United States. In the case of a security agreement given to secure a
14 loan made under sec. 270(2) of this chapter and covering a vessel docu-
15 mented under the laws of the United States, the first lien requirement
16 of this section may also be satisfied by use of a trust deed and bond
17 issue under it, if the trustee is a citizen of the United States and
18 obtains a first preferred ship mortgage on the vessel under the Ship
19 Mortgage Act of 1920, and the approval of the Secretary of Commerce is
20 obtained under 46 U.S.C. secs. 839 and 961 for the transfer of the bond
21 or bonds to the department if the trustee is not a trustee approved by
22 the Secretary of Commerce under 46 U.S.C. secs. 808, 835 and 961.

23 Sec. 45.96.297. LOANS FOR PURCHASE OF ALASKA LIMITED ENTRY PER-
24 MITS. (a) Loans under sec. 270(2) of this chapter for the purchase of
25 a limited entry permit may be made only upon certification by the Alaska
26 Commercial Fisheries Entry Commission (AS 16.43.020) that the fisherman
27 is a person who qualifies as a transferee for the permit under AS 16.43
28 and the regulations adopted by the commission.

29 (b) Upon approval by the director of the division of Alaska loan

1 programs, the permit to be purchased may be pledged as security for a
2 loan under (a) of this section, if

3 (1) the certificate for the pledged permit lists the director
4 as the legal owner of the permit;

5 (2) the certificate for the pledged permit lists the debtor
6 as the equitable owner of the permit;

7 (3) all annual permit cards issued under the pledged permit
8 list the name of the debtor;

9 (4) all obligations and responsibilities of a permit owner
10 are assumed by the debtor;

11 (5) co-signers or other sureties for performance under the
12 note are not vested with any rights in the pledged permit and their
13 obligation is limited to satisfaction of the note and payment of costs
14 directly incurred by the division in administering the loan.

15 (c) The director of the division of Alaska loan programs is not
16 liable for any act or omission resulting from permit ownership nor will
17 that act or omission affect his title to the permit or his rights under
18 it.

19 (d) Upon satisfaction of the note by the debtor, the director
20 of the division of Alaska loan programs shall certify to the Alaska
21 Commercial Fisheries Entry Commission that the note has been satisfied.

22 (e) Upon certification as provided in (d) of this section, the
23 Alaska Commercial Fisheries Entry Commission shall amend the permit
24 certificate to list the debtor as the legal owner.

25 Sec. 45.96.300. PUBLIC PURPOSES. (a) The director of the divi-
26 sion of Alaska loan programs shall lend money to municipalities with
27 populations of less than 5,000 according to the most recent survey
28 conducted by the United States Census Bureau and to those corporations
29 eligible under (d) of this section. Loans to municipalities shall be

1 made through the purchase by the fund of municipal bonds. Loans to
2 nonprofit corporations shall be made through purchase by the fund of
3 revenue bonds issued on behalf of the corporation by the municipality in
4 which the project to be financed by the loan is constructed. If the
5 loan to a nonprofit corporation is for construction outside a munici-
6 pality, the revenue bonds to be purchased by the fund shall be issued by
7 the state bond committee on behalf of the nonprofit corporation. The
8 cost of a loan made under this section shall be the same as the cost of
9 borrowing to the fund. Loans made under this subsection are subject to
10 the following conditions:

11 (1) When the amount of the issuance is \$5,000,000 or less,
12 the loan shall be made through the purchase by the fund of general
13 obligation or revenue bonds.

14 (2) The borough or city attorney shall certify that all legal
15 requirements relating to required bond elections, if necessary, and bond
16 issuance have been met, or if the bonds are issued outside a munici-
17 pality, certification shall be made by the Department of Law.

18 (3) The bonds shall be prepared by the municipality's attor-
19 ney, approved by the attorney general and need not be in definitive form.

20 (4) The bonds shall be for a term commensurate with purpose,
21 but in no event for more than 30 years average life.

22 (b) The director of the division of Alaska loan programs shall
23 submit a bid for all general obligation bonds offered on a competitive
24 basis by a home rule borough or city or general law borough or city of
25 any class incorporated under the laws of the state if the borough or
26 city provides its bid form to the director at least 10 days before the
27 opening of the bid. The request for bids and the bid proposal shall
28 provide for issuing all or a portion of the bonds based upon the best
29 combination of bids. The bid shall be determined on the basis of the

1 Daily Bond Buyer 20 bond average as follows:

2 (1) For general obligation bonds with a rating of "A" or
3 higher, the bid shall be

4 (A) 100 points under the average for the first five
5 years maturity;

6 (B) 75 Points under the average for the next five years
7 maturity;

8 (C) 50 points under the average for the next five years
9 maturity;

10 (D) 25 points under the average for the next five years
11 maturity;

12 (E) 0 points under the average for the next five years
13 maturity;

14 (F) 25 points above the average for the next five years
15 maturity.

16 (2) For general obligation bonds with a rating of "Baa" or
17 lower or which are unrated, the bid shall be

18 (A) 50 points under the average for the first five years
19 maturity;

20 (B) 25 points under the average for the next five years
21 maturity;

22 (C) 0 points under the average for the next five years
23 maturity;

24 (D) 25 points above the average for the next five years
25 maturity;

26 (E) 50 points above the average for the next five years
27 maturity;

28 (F) 75 points above the average for the next five years
29 maturity.

1 (c) The director of the division of Alaska loan programs shall
2 submit a bid for all revenue bonds offered on a competitive basis by a
3 home rule borough or city or general law borough or city of any class or
4 on behalf of a nonprofit corporation performing any of the functions
5 described in AS 29.48 for which revenue sharing is received directly or
6 indirectly by the corporation or on behalf of those nonprofit corpora-
7 tions described in (d) of this section if the borough, city, or non-
8 profit corporation provides its bid form to the director at least 10
9 days before the opening of the bid. The request for bids and the bid
10 proposal shall provide for issuing all or a portion of the bonds based
11 upon the best combination of bids. The bid shall be determined on the
12 basis of the Daily Bond Buyer 20 bond average as follows:

13 (1) 50 points under the average for the first five years
14 maturity;

15 (2) 25 points under the average for the next five years
16 maturity;

17 (3) 0 points under the average for the next five years
18 maturity;

19 (4) 25 points above the average for the next five years
20 maturity;

21 (5) 50 points above the average for the next five years
22 maturity;

23 (6) 75 points above the average for the next five years
24 maturity;

25 (d) A nonprofit corporation is eligible for a loan under this
26 section if

27 (1) it is designated as tax exempt under sec. 501(c)(3) and
28 (4) of the Internal Revenue Code of 1954;

29 (2) it is a public corporation or other municipal

1 instrumentality under AS 29.59.010; or

2 (3) it is created by statute and performs a state function.

3 (e) The major part of the proceeds of any bond issue purchased by
4 the fund under this section shall be used for purposes which are tax
5 exempt under federal law and regulation in effect at the time the bonds
6 are issued.

7 (f) The limitations in secs. 400 - 430 of this chapter do not
8 apply to loans or purchases made under this section.

9 Sec. 45.96.310. DEFAULT ON MUNICIPAL BONDS. (a) Notwithstanding
10 any provision of law, to the extent that a department or agency of the
11 state is the custodian of money payable to a municipality, at any time
12 after written notice to the department or agency head from the commis-
13 sioner of revenue that the municipality is in default on the payment of
14 principal or interest on municipal bonds held or owned by the fund, the
15 department or agency shall withhold the payment of that money from that
16 municipality and pay over the money to the fund for the purpose of
17 paying principal of and interest on bonds of the fund.

18 (b) If money is not available to make any payment of principal and
19 interest when due on a bond issue, the chief executive officer of the
20 municipality which issued the bonds shall notify the commissioner of
21 revenue at least 20 days in advance of the pending default that a de-
22 fault is pending. Failure to give the notice of pending default is
23 grounds for removal of the chief executive officer from office and, if
24 default occurs, the office is forfeited and is filled as provided by law
25 for filling vacancies.

26 Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the
27 purpose of securing each tax exempt bond issue of municipalities of the
28 state and those bonds on behalf of nonprofit corporations guaranteed or
29 issued under this chapter there is established a special account called

1 the municipal bond capital reserve account. The commissioner of revenue
2 shall pay into that account from the unallocated reserve account upon
3 establishment an amount equal to five per cent of the obligations issued
4 and sold after July 1, 1979 and upon subsequent sales, if any, of obli-
5 gations of the issue secured an additional amount equal to five per cent
6 of the obligations sold. At the end of each fiscal year the commis-
7 sioner of revenue shall withdraw from the municipal bond capital reserve
8 account and pay to the unallocated reserve account any amount in the
9 account in excess of five per cent of the obligations secured or, if the
10 amount in the account is less than five per cent of the obligations
11 secured, pay into the account from the unallocated reserve account the
12 amount necessary to bring the reserve to five per cent. All money held
13 in a municipal bond capital reserve account shall be used as required,
14 when money is not available from the principal and interest account,
15 solely for (1) the payment of the principal of obligations, (2) the
16 purchase or redemption of obligations, (3) the payment of interest on
17 obligations, or (4) the payment of any redemption premium required to be
18 paid when those obligations are redeemed before maturity. Any income or
19 interest earned by the account shall be paid to the unallocated reserve
20 account. Any amount remaining in a municipal bond capital reserve ac-
21 count when the issue the account secures is fully retired shall be paid
22 to the unallocated reserve account.

23 Sec. 45.96.330. INDUSTRIAL DEVELOPMENT LOANS. (a) The director
24 of the division of Alaska loan programs may lend money from the fund to
25 businesses conducting exempt activities under sec. 103(b)(4) and (5) of
26 the Internal Revenue Code of 1954 for those activities either directly
27 or through purchase by the fund of industrial development bonds issued
28 on behalf of the business by the state bond committee.

29 (b) A loan may be made under this section only if upon payment of

1 the loan the project financed by the loan will be the property of

2 (1) the municipality in which the activity is conducted,
3 unless the municipality has provided otherwise by a resolution adopted
4 before approval of the loan; or

5 (2) the state if the activity is not conducted within a
6 municipality.

7 (c) Any corporation, partnership, or firm doing business in the
8 state is eligible for a loan under this section if

9 (1) the governing body of the municipality in which the
10 activity is performed has been given notice of the project and the
11 application for loan or purchase and has approved the project and ap-
12 plication, or has not within 60 days of receipt of notice notified the
13 director in writing that it disapproves the loan; or

14 (2) when the activity to be financed by the loan is not
15 performed within a municipality, the commissioner of community and
16 regional affairs approves the project.

17 (d) A corporation, partnership, or firm which requests a loan of
18 greater than \$5,000,000 for a project under this section may request a
19 special series of bonds for its project. The director of the division
20 of Alaska loan programs may request the state bond committee to issue
21 the special series of bonds on behalf of the corporation, partnership,
22 or firm in place of making a direct loan. A corporation, partnership,
23 or firm is eligible for a special bond series for its project if it has
24 a credit rating of "A" or better.

25 Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition
26 to costs directly related to a project, the sum total of all costs of
27 financing and carrying out a project are eligible for bonding under
28 secs. 300 - 330 of this chapter. These include, but are not limited to,
29 the costs of all necessary studies, surveys, plans and specifications,

1 architectural, engineering or other special services, acquisition of
2 real property, site preparation and development, purchase, construction,
3 reconstruction and improvement of real property and the acquisition of
4 machinery and equipment as may be necessary in connection with a pro-
5 ject; an allocable portion of the administrative and operating expenses
6 of the issuer; the cost of financing the project, including interest on
7 bonds issued to finance the project; and the cost of other items, in-
8 cluding any indemnity and surety bonds and premiums on insurance, legal
9 fees, fees and expenses of trustees, depositaries, financial advisors,
10 and paying agents for the bonds issued as the issuer considers neces-
11 sary.

12 Sec. 45.96.350. EDUCATION. (a) In addition to other powers
13 granted in this chapter, the director of the division of Alaska loan
14 programs may make scholarship loans from the fund to students selected
15 under (b) - (g) of this section.

16 (b) Proceeds from scholarship loans may only be used for trans-
17 portation, books, tuition and required fees, and for room and board.
18 The loans may only be used to attend a career education program approved
19 by the Alaska Commission on Postsecondary Education or a college or
20 university accredited by the accreditation association for the region in
21 which the college or university is located.

22 (c) To maintain a loan the student must continue to be enrolled as
23 a full-time student in good standing in a work study program approved by
24 the Department of Education, in a career education program, or in a
25 college or university designated under (b) of this section.

26 (d) Loans are noninterest bearing while a student is enrolled
27 under (c) of this section or is receiving a deferment of payments under
28 (g) of this section if appropriated funds are available for payment to
29 the fund of the interest.

1 (e) The repayment period for student loans is 10 years. Unless a
2 deferment of payments has been granted under (g) of this section, re-
3 payment shall commence when the student terminates his studies. In case
4 of hardship, the Alaska Loan Programs Evaluation Committee may extend
5 repayment of a loan for an additional period of up to five years.

6 (f) If, upon completion of the course of study for which the loan
7 was granted, the borrower repays 60 per cent of the principal amount of
8 the loan with interest with no delinquency, the remaining 40 per cent
9 owing shall be forgiven if appropriated funds are available for payment
10 to the fund of the amount forgiven.

11 (g) The Alaska Loan Programs Evaluation Committee shall defer
12 repayment of a loan during any of the following:

13 (1) the first year after a student terminates his studies;

14 (2) return by the student to student status as provided in
15 (c) of this section;

16 (3) performance by the student of military or required alter-
17 native service; or

18 (4) 50 per cent or greater disability of the student, as
19 certified by competent medical authority.

20 Sec. 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS. (a) In
21 addition to other powers granted in this chapter, the director of the
22 division of Alaska loan programs may make loans from the fund to a
23 business directly involved in the tourist industry.

24 (b) Upon endorsement and plan approval by a local historical
25 district commission established under AS 29.48.108 and the recommend-
26 ation of a majority of the members of the Historic Sites Advisory Com-
27 mittee, loans may be made from the fund to a person, firm, business or
28 municipality subject to applicable laws for the restoration, im-
29 provement, rehabilitation, or maintenance of a structure which is

1 (1) within the boundaries of an historical district estab-
2 lished under AS 29.48.110;

3 (2) identified as important in state or national history as
4 provided for in AS 29.48.110(b); or

5 (3) another building or structure within an historical dis-
6 trict, and suitable for superficial modification so that it can conform
7 to the period or motif of the surrounding buildings or structures that
8 are the reason for the area's designation as an historical district.

9 (c) Loans may be made from the fund for the nonfederal share of
10 costs of projects to acquire, develop, or extend outdoor recreation
11 sites and facilities.

12 Sec. 45.96.370. ELIGIBILITY. In order to be eligible for a loan
13 under this chapter, other than a loan made under sec. 350 of this chap-
14 ter, a person must have been a resident of the state for at least five
15 years on the date of application for the loan and must be 18 years of
16 age or older. Except for loans made under sec. 330 of this chapter, a
17 corporation is eligible for a loan if more than 60 per cent of its
18 shareholders have been residents of the state for at least five years on
19 the date of the application for the loan, the chief executive officer
20 and all members of the governing board of the corporation have been
21 residents of the state for at least five years on the date of applica-
22 tion for the loan, and the chief executive officer and members of the
23 governing board assume full individual liability for repayment of the
24 loan. A loan to a corporation is immediately due and payable if it
25 ceases to meet these eligibility requirements. An individual is ineli-
26 gible for a loan under this chapter if an earlier loan to the individual
27 from the state or an agency of the state has been discharged in bank-
28 ruptcy unless the defaulted loan has been repaid in full and 10 years
29 have elapsed from the date of repayment.

1 Sec. 45.96.380. MAXIMUM LOAN AMOUNTS. (a) Loans made under the
2 authority of sec. 260 of this chapter for the purchase or construction
3 of residential housing may not exceed: (1) \$90,000 for a single family
4 dwelling; (2) \$130,000 for a duplex; (3) \$170,000 for a triplex; (4)
5 \$210,000 for a fourplex. A loan made for the purchase or construction
6 of residential facilities in excess of four units shall be treated as a
7 commercial building loan subject to the limitations placed on such loans
8 in (b)(1) of this section.

9 (b) Commercial loans made under the authority of sec. 270 of this
10 chapter may not exceed:

11 (1) \$500,000 per individual for business activities; farm
12 development; agricultural irrigation systems; purchase, construction,
13 renovation, or repair of commercial buildings; fish manufacturing and
14 processing; fishing vessels and gear; logging operations and equipment;
15 timber manufacturing and processing; nonrenewable resource extraction;
16 or any other activity not otherwise specifically provided for in this
17 section;

18 (2) \$350,000 per individual for farm chattel other than for
19 irrigation systems.

20 (c) Loans for a single project under (b)(1) of this section may
21 exceed \$500,000 but may not exceed \$3,000,000 if

22 (1) the loan is made to more than one but not more than 10
23 individuals participating in the project and the loan to each individual
24 does not exceed the maximum limit under (b)(1) of this section; or

25 (2) the loan is made to a corporation and no more than 10
26 individuals owning stock in that corporation assume personal liability
27 for the loan in an amount which as to each individual does not exceed
28 the maximum limit under (b)(1) of this section.

29 (d) Educational loans made under the authority of sec. 350 of this

chapter may not exceed:

- (1) \$4,000 per individual per year for undergraduate studies;
- (2) \$8,000 per individual per year for graduate studies;
- (3) \$4,000 per individual per year for vocational studies;
- (4) \$4,000 per individual per year for work studies.

(e) No more than three loans may be made to any person for other than educational purposes under this chapter. A loan to an associate of the borrower is considered to be a loan to the borrower. For the purposes of this section, "associate of the borrower" means

(1) a corporation or other organization of which the borrower is an officer, director or partner, or is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities;

(2) a person who is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities of the borrower;

(3) a trust or other estate in which the borrower has a substantial beneficial interest or as to which the borrower serves as trustee or in a similar fiduciary capacity;

(4) a relative or spouse of the borrower or a relative of the spouse, who has the same home as the borrower;

(5) a person directly or indirectly controlling, controlled by, or under common control with, the borrower.

(f) The maximum loan amounts established in (a) - (d) of this section shall increase in proportion to increases in the consumer price index for Anchorage. The consumer price index for Anchorage for July 1, 1979 shall be the basis for determining annual percentage increases in the maximum loan amounts.

Sec. 45.96.390. AREA COST DIFFERENTIAL. (a) The maximum loan

1 amounts established in sec. 380(a) and (b) of this chapter shall be
2 increased by the area cost differential (ACD) determined by the formula
3 $ACD = LCC/BCC \times LCOL/BCOL$ where

4 (1) LCC is the cost of construction in the area in which the
5 facility to be financed by the loan is located;

6 (2) BCC is the cost of construction in the city or borough
7 having the lowest cost of construction in the state;

8 (3) LCOL is the cost of living in the area in which the
9 facility to be financed by the loan is located;

10 (4) BCOL is the cost of living in the city or borough having
11 the lowest cost of living in the state.

12 (b) For purposes of this section the Department of Transportation
13 and Public Facilities shall annually determine the cost of construction
14 and the cost of living in each area of the state under regulations
15 promulgated by the department establishing standards for the determi-
16 nation.

17 Sec. 45.96.400. ADDITIONAL LOAN LIMITATIONS. The maximum loan
18 amounts established in secs. 380(b) and 390 of this chapter shall be
19 further limited, based upon the actual technical and managerial experi-
20 ence of the borrower relating to the project or activity for which the
21 loan is made, as follows:

22 (1) if the borrower's experience is less than two years, he
23 may receive up to 50 per cent of the maximum amount;

24 (2) if the borrower's experience is two to three years, he
25 may receive up to 70 per cent of the maximum amount;

26 (3) if the borrower's experience is three to four years, he
27 may receive up to 80 per cent of the maximum amount;

28 (4) if the borrower's experience is four to five years, he
29 may receive up to 90 per cent of the maximum amount;

1 (5) if the borrower's experience is five years or more, he
2 may receive 100 per cent of the maximum amount.

3 Sec. 45.96.410. VALUE LIMITATION. The provisions of secs. 380 -
4 400 of this chapter notwithstanding, no loan made under this chapter,
5 unless it is a loan made under the provisions of sec. 330 of this chap-
6 ter, may exceed

7 (1) 90 per cent of the appraised value of real property
8 pledged as security for the loan;

9 (2) 95 per cent of the appraised value of real property
10 pledged as security for the loan if the loan is for residential housing
11 in an area where Federal Housing Administration mortgage insurance is
12 not available; or

13 (3) 80 per cent of tangible personal property pledged as
14 security for the loan.

15 Sec. 45.96.420. MAXIMUM TERMS OF LOANS. The term of a loan made
16 under this chapter may not exceed the useful life of the property
17 pledged as security for the loan nor

18 (1) 30 years on a loan secured by real property;

19 (2) 15 years or the life of the equipment on a loan secured
20 by equipment used for production of income;

21 (3) seven years on a loan secured by tangible personal pro-
22 perty.

23 Sec. 45.96.430. RATE OF INTEREST. (a) The rate of interest
24 charged to borrowers under this chapter shall be the amount determined
25 by the commissioner of revenue to be sufficient to cover anticipated
26 cost of money to the fund and, for borrowers other than municipalities,
27 one per cent over the anticipated cost for the loss reserve account plus
28 the amount required for any necessary insurance, but the rate of in-
29 terest charged may be lower if necessary to prevent bonds issued under

1 this Act from being arbitrage bonds under the provisions of and regula-
2 tions under section 103(c) of the Internal Revenue Code of 1954, as
3 amended. The determination of the anticipated cost by the commissioner
4 is conclusive. Rates of interest less than that, except as provided in
5 (b) of this section, may be charged if the renewable resource develop-
6 ment fund or another state fund agrees to pay the difference between
7 cost and the interest rate to be charged or if appropriation for the
8 purpose of paying the difference has been made.

9 (b) The rate of interest determined in accordance with (a) of this
10 section shall be reduced by one per cent if the loan is made to a vet-
11 eran or is made for agricultural purposes. If the loan is made to a
12 veteran, the World War II veterans' revolving fund, created in AS 26.-
13 15.090, shall pay the difference between the rate determined in (a) of
14 this section and the rate charged to the borrower. If the loan is made
15 for agricultural purposes, the agricultural revolving loan fund, created
16 in AS 03.10.040, shall pay the the difference between the rate deter-
17 mined in (a) of this section and the rate charged to the borrower. If
18 the loan is made to a veteran and for agricultural purposes, the rate of
19 interest shall be reduced by two per cent and each fund shall pay one-
20 half the difference.

21 (c) When the World War II veterans' revolving fund's assets become
22 depleted so that it can no longer pay the difference, the provisions of
23 (b) of this section relating to loans made to veterans apply only if
24 appropriation is made for the purpose of paying the difference. When
25 the agricultural revolving loan fund's assets become depleted so that it
26 can no longer pay the difference, the provisions of (b) of this section
27 relating to loans made for agricultural purposes apply only if appro-
28 priation is made for the purpose of paying the difference.

29 Sec. 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE. (a) The

1 following persons are eligible for special interest rates for veterans
2 established in sec. 430(b) of this chapter:

3 (1) any person who served in the armed forces of the United
4 States for 90 days or more, or whose service was for less than 90 days
5 because of injury or disability incurred in the line of duty, between
6 April 6, 1917 and November 11, 1918, and beginning September 16, 1940 to
7 six months after termination of hostilities involving United States
8 forces in Indo-China, or in a combat zone during any period of armed
9 conflict, who was separated from the armed forces with a discharge other
10 than dishonorable, and

11 (A) who at the time of induction into the service was a
12 resident of the territory or state, who had been a resident for not
13 less than one year immediately before his induction, and who re-
14 turned to the territory or state after discharge as a resident with
15 the intention of remaining in the territory or state; or

16 (B) who, not being a bona fide resident of the territory
17 or state before his entry into the service, has been a resident of
18 the territory or state for five or more years;

19 (2) any person who was dependent on a member of the armed
20 forces or a veteran of World War II at the time of the member's or
21 veteran's death if

22 (A) the member or veteran was a resident of the terri-
23 tory for one year before induction into the service;

24 (B) he served in the armed forces for at least 90 days
25 between September 16, 1940, and July 25, 1947, but no benefits for
26 loans accrue to dependents of an enlistee or reenlistee for time
27 served after November 1, 1945, regardless of whether the enlistment
28 or reenlistment was before or after November 1, 1945;

29 (C) he died before the official date of the termination

1 of that war; and

2 (D) his discharge was not dishonorable;

3 (3) any person who has served in the Alaska Army National
4 Guard, the Alaska Air National Guard, or the Alaska Naval Militia for
5 not less than six years and who has not received a discharge other than
6 honorable.

7 (b) The provisions of sec. 430(b) of this chapter are extended to
8 persons who served other than dishonorably on active duty between
9 June 25, 1950, and January 31, 1955, who served other than dishonorably
10 on active duty between August 4, 1964, and six months after termination
11 of hostilities involving forces of the United States, and to dependents
12 of those persons, subject to the following provisions and eligibility
13 qualifications:

14 (1) a discharge other than dishonorable from the armed forces
15 of the United States or release to a reserve component;

16 (2) at the time of entry into the service residency in the
17 territory or state for not less than one year before entry into the
18 service, and return to the territory or state within a reasonable length
19 of time after discharge or separation with the intention of remaining in
20 the territory or state; or lacking residency before entry into the
21 service, residency in the territory or state for at least five years
22 following release from active military service; and

23 (3) service in the armed forces of the United States for
24 90 days or more, or service for a lesser period because of injury or
25 disability incurred in line of duty, between June 25, 1950, and Janu-
26 ary 31, 1955, or service in the armed forces of the United States for
27 90 days or more or service for a lesser period because of injury or
28 disability incurred in line of duty, between August 4, 1964, and July 1,
29 1977.

1 (c) A person who is eligible under more than one of the qualifi-
2 cation provisions of (a) and (b) of this section shall have the rate of
3 interest on his loan reduced by one and one-half per cent.

4 Sec. 45.96.450. EMPLOYMENT PRACTICES. (a) In the performance of
5 contracts let by a recipient of a loan under this chapter for construc-
6 tion, repair, preliminary surveys, engineering studies, consulting,
7 maintenance work or any other retention of services necessary to com-
8 plete any project for which the loan was made, 95 per cent residents
9 shall be employed if they are available and qualified. If 10 or fewer
10 persons are employed under the contract, then 90 per cent residents
11 shall be employed if they are available and qualified.

12 (b) The commissioner of commerce and economic development shall
13 incorporate into all lending instruments issued under this chapter the
14 provisions of (a) of this section and a provision calling for immediate
15 foreclosure of the loan for violation of the provisions of (a) of this
16 section.

17 (c) In addition to immediate foreclosure of his loan, as provided
18 in (b) of this section, a borrower who violates the provisions of (a) of
19 this section is ineligible for any loan under this chapter for 10 years
20 following the violation.

21 (d) Municipalities and state agencies and departments when con-
22 tracting for services concerning any aspects of administration and
23 financing of the fund shall comply with AS 36.10.

24 Sec. 45.96.460. COOPERATION WITH OTHER AGENCIES. All departments,
25 agencies and public corporations of the state shall provide information,
26 services and facilities to the fund on its request. The fund shall
27 reimburse the department, agency or corporation for expenses reasonably
28 incurred on the fund's behalf.

29 Sec. 45.96.470. BANK PARTICIPATION. (a) Loans made under the

1 authority of this chapter may be made in participation with financial
2 institutions. The participating financial institution may act as agent
3 for the division of Alaska loan programs in the initial processing of
4 applications for loans. Fees for such services shall be mutually agreed
5 upon.

6 (b) If a financial institution participates in a loan, the fund
7 and the participating institution shall share the same ratable interest
8 in the collateral securing the loan. Loan payments made by the borrower
9 shall be distributed between the financial institution and the fund on a
10 pro rata basis.

11 (c) The participating financial institution shall fix the rate of
12 interest charged by it but may not exceed the legal contract rate of
13 interest prescribed by law.

14 (d) The maximum service fee for administering a loan which may be
15 charged by a participating financial institution shall be set by the
16 director of the division of Alaska loan programs.

17 Sec. 45.96.480. ASSURANCE REQUIRED. (a) For each loan made from
18 the fund the loan agreement shall include an assurance by the borrower
19 that no person who provides services to the borrower in preliminary
20 phases of a project for which the loan is made, including all studies
21 made in connection with the project,

22 (1) may participate in the implementation stages of that
23 project; or

24 (2) may represent more than one interest in connection with
25 the project.

26 (b) A list of all persons performing preliminary services for a
27 loan applicant shall be furnished to the division of Alaska loan pro-
28 grams as part of the loan application, and a list of all persons with
29 whom the borrower has contractual relations in respect to the project

1 after the application for loan shall be submitted to the division at
2 intervals set by the division of Alaska loan programs.

3 Sec. 45.96.490. DEFINITIONS. For purposes of this chapter, "the
4 fund" and "the loan programs fund" mean the Alaska loans program fund
5 created in AS 45.96.020.

6 * Sec. 10. AS 03.10.050 is repealed and re-enacted to read:

7 Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall
8 administer the loan fund.

9 * Sec. 11. AS 14.40.751(a) is amended to read:

10 (a) There is created a scholarship revolving loan fund. [THE FUND
11 SHALL BE USED TO MAKE SCHOLARSHIP LOANS TO STUDENTS SELECTED UNDER
12 AS 14.40.751 - 14.40.806. ALL REPAYMENTS OF PRINCIPAL AND INTEREST ON
13 SCHOLARSHIP LOANS SHALL BE PAID INTO THE SCHOLARSHIP REVOLVING LOAN FUND
14 AND SHALL BE USED TO MAKE NEW SCHOLARSHIP LOANS. IF ESTIMATED FUNDS
15 AVAILABLE FROM SCHOLARSHIP LOAN REPAYMENTS ARE INADEQUATE TO FULLY FUND
16 ESTIMATED SCHOLARSHIP LOANS FOR ANY FISCAL YEAR, ADDITIONAL FUNDING FROM
17 THE GENERAL FUND MAY BE REQUESTED AND APPROPRIATED FOR THAT YEAR.]

18 * Sec. 12. AS 14.40.755(b) is amended to read:

19 (b) A person whose [LOAN OR] grant application is not recommended
20 or presented to the committee by the executive secretary may appeal to
21 the committee through the chairman of the committee and the committee
22 shall consider the application.

23 * Sec. 13. AS 18.100.050 is amended to read:

24 Sec. 18.100.050. ELIGIBILITY FOR GRANTS [LOANS]. Only public or
25 nonprofit private corporations are eligible for grants [LOANS] under
26 this chapter. The nonprofit corporations must be designated as tax
27 exempt under sec. 501(c)(3) and (4) [501(e)(3) AND (4)] of the Internal
28 Revenue Code of 1954.

29 * Sec. 14. AS 18.100.070(a) is amended to read:

1 (a) There is created within the Department of Community and Re-
2 gional Affairs a senior citizens housing development fund. Subject to
3 direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the de-
4 partment shall make grants [OR LOANS] to municipalities or to corpora-
5 tions designated as tax exempt under sec. 501(c)(3) and (4) of the
6 Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER SEC. 50 OF THIS
7 CHAPTER] for the purpose of developing senior citizen housing. [A GRANT
8 FROM THE PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

9 * Sec. 15. AS 18.100.070(b) is amended to read:

10 (b) Application for a grant [OR LOAN] under (a) of this section
11 shall be in the form prescribed by the department. The application
12 shall demonstrate the need for senior citizen housing in the area to be
13 served, the feasibility of the proposed project, and an adequate manage-
14 ment plan which shall demonstrate the ability of the eligible recipient
15 to sustain the proposed project.

16 * Sec. 16. AS 29.13.100 is amended by adding a new paragraph to read:

17 (39) AS 29.58.290 (industrial development bonds)

18 * Sec. 17. AS 29.58 is amended by adding a new section to read:

19 Sec. 29.58.290. INDUSTRIAL DEVELOPMENT BONDS. No municipality,
20 home rule or otherwise, may issue a revenue bond which is an industrial
21 development bond under the provisions of the Internal Revenue Code of
22 1954 (26 U.S.C. 103).

23 * Sec. 18. AS 37.10.050 is amended to read:

24 Sec. 37.10.050. ACCOUNTING FOR STATE MONEY AND PAYMENT TO DIVISION
25 OF TREASURY [DEPARTMENT OF REVENUE] FOR DEPOSIT IN PROPER FUND. (a)
26 Each office, board, commission, or bureau authorized to collect or
27 receive fees, licenses, taxes or other money belonging to the state
28 shall account for and pay the fees, licenses, taxes or other money, less
29 fees to which he is entitled by law to the division of treasury of the

1 Department of Revenue at least once each month.

2 (b) Money collected for the state shall be deposited by the col-
3 lector in the nearest bank to the account of the division of treasury
4 [DEPARTMENT OF REVENUE] when the division of treasury [DEPARTMENT OF
5 REVENUE] directs this to be done.

6 (c) The division of treasury [DEPARTMENT OF REVENUE] in June and
7 December of each year shall publish in at least one newspaper of general
8 circulation in each of the four judicial districts a detailed report in
9 display advertising form of the amount of state money deposited in each
10 named bank or other financial institution. A copy of the semiannual
11 report on bank deposits shall also be sent to the Legislative Affairs
12 Agency for distribution of copies to the members of the legislature.
13 The terms of the deposit may be obtained upon a written request.

14 * Sec. 19. AS 37.10.070(a) is amended to read:

15 (a) When the commissioner of revenue determines that there is in
16 the state treasury a surplus above an amount sufficient to meet current
17 cash expenditure needs, he shall direct the director of the division of
18 treasury to invest the surplus. The director may invest the surplus
19 [THE SURPLUS SHALL BE INVESTED] in any of the following:

20 (1) obligations of, or obligations insured or guaranteed by,
21 the United States or agencies or instrumentalities of the United States;

22 (2) obligations secured by reserves paid in by the United
23 States or agencies or instrumentalities of the United States or obli-
24 gations of corporations in which the United States is a shareholder or
25 member;

26 (3) notes issued by Farmer's Home Administration;

27 (4) bank certificates of deposit which are secured as to the
28 payment of principal and interest in accordance with Alaska law;

29 (5) corporate obligations of prime or equivalent quality, as