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A NARRATIVE ON SENATE BILL 1

by

Senator George H. Hohman, Jr., Chairman
Legislative Council

January 1980

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Dear Alaskan:

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

REDUCE BUREAUCRACY

PROVIDE GREATER CONTROL

MAXIMIZE BENEFITS TO ALASKANS

OPTIMAL PROGRAM ACCOUNTABILITY

LOWER HOUSING COSTS

CONTRIBUTE TO LOWER COST OF LIVING

FINANCIAL DEVELOPMENT FOR
RENEWABLE RESOURCES

SECURE PERMANENT FUND MONIES
WITH HIGH GRADE INVESTMENT

Please feel free to submit any comments you may have regarding this bill to;

Senator George H. Hohman, Jr., Chairman
Legislative Council
Pouch V
Juneau, Alaska 99811

Sincerely,

Senator George H. Holman, Jr., Chairman
Legislative Council

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INTRODUCTION

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

Because of the impact of the permanent fund on Alaskans, various opinion polls have been conducted to assess public sentiment about state needs and priorities, with emphasis on the structure, management and use of the permanent fund (Dittman for the Senate Committee on the Permanent Fund, Dec., 1977, Rowan Group Report for the Office of the Governor, July, 1977; the Alask Public Forum Report, March, 1977, and Rowan D-2 Poll, 1978).

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

reasons:

- 1) The expertise already exists within the infrastructure for most, if not all, the activities currently contemplated for the permanent fund. The Treasury Division in 1977 administered \$1/2 billion of fixed income securities for the general fund and an additional \$1/2 billion for 7 segregated funds.
- 2) Employing an entirely new staff to manage the permanent fund would present many difficulties and risks.
- 3) The combined resources of the permanent fund, the general fund and the pension funds will create a pool of assets sufficient to employ specialized, sophisticated investment techniques to a degree none would afford individually. Thus all areas will benefit from combined management.
- 4) The revenues accruing to the permanent fund derive from taxes and belong to all of the citizens of Alaska. Therefore, no conflict of interest can result from their management by an existing state agency.
- 5) Accounting techniques currently exist for allocating cost among the various funds.

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

In addition to the study undertaken by Lombard-Wall, letters received from the Treasury Divisions in other states indicate that

effective 60 days after presentation unless disapproved by a resolution concurred in by a majority of the members of each house.

RATIONALE FOR ESTABLISHMENT OF THE ALASKA LOAN PROGRAM

Since statehood, the Alaskan legislature has created fifteen loan programs and ten independent corporations to meet the capital needs of various groups or to enhance development of certain industries within the State. Generally, these target groups were unable to obtain adequate financing (either loan dollar amounts, interest rates, or loans of sufficient duration), from private financial institutions within or outside Alaska. The loan programs were not created to compete with private lenders, in fact, bank participation was a requirement of one loan program prior to the administrative directive requiring 25% bond participation in 19 Rather, as a matter of public policy the loan programs were conceived to provide funds for Alaskan ventures at terms banks could not (i.e. long term money) or would not (i.e. higher levels of risk) capitalize. Most of the loan programs are administered by the Department of Commerce and Economic Development, exceptions being the Agricultural Revolving Loan Fund (Department of Natural Resources); the Scholarship Revolving Loan Fund (Department of Education); and the Senior Citizens Housing Loan Fund (Department of Community and Regional Affairs). The independent corporations - Alaska Housing Finance Corporation, the Alask Power Authority, the Alaska Development Corporation, the Small Business Development Corporation, the Municipal Bond Bank, the Industrial Development Authority, Alask Pipeline Authority; Alaska Medical Facility Authority; Alaska Commercial Fishing and Agriculture Board and the Renewable Resources Corporation, are not within the direct purview of any state agency.

while not a formal audit, brought to light the facts that AHFC has promulgated no administrative procedures and had made loan policy changes without benefit of required public hearings beforehand. These facts were also noted in an audit performed by the Division of Legislative Audit, dated November 11, 1977, and released in February, 1978. The Ombudsman also stated that information concerning the policy changes had been selectively distributed to the state's financial institutions.

AHFC's 1977 lending activity was distributed on a ratio of 90% urban, 10% rural counter to the corporation's statutory mandate that loan activity shall be concentrated in "remote, underdeveloped or blighted areas", (AS 18.56.010). Although, AHFC has developed a loan program for rural home improvements or building material loans, according to the November 15 audit, (Division of Legislative Audit), the program had received no publicity in 1978. Repeated advance of general fund monies and legislative efforts have failed to result in an effort devoted to the basic legislative intent.

Taken as a whole, internal operation of the various loan programs can be neither damned nor praised. There are instances of good management, very poor management, and the entire spectrum is between. As of 1977, delinquency rates in the loan programs vary from 33% (Agricultural Revolving Loan Fund) to 2% (Veteran's Revolving Loan Fund). Subsequent reports indicate the Veteran delinquent rates were substantially higher. Characteristic of all loan programs is that loan granting, record keeping and collection functions occur within the same division. While an inherently sound practice for private financial institutions, whose goal

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

The scope of activity includes; 1) educational loans, 2) commercial loans with a maximum of \$500,000 per individual and \$5 million maximum for no more than 10 individuals in a project, or a corporation where no more than 10 individuals owning stock assume a personal liability for fisherman, farmers and business purposes in general; 3) residential loans ranging from \$90,000 (Cost of Leasing Index 1978) for a single residence to \$210,000 for a 4-plex; 5) special categories previously covered in existing law; 6) public purpose loans where the Alaska Loan Program will submit a bid for all GO and revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city under the laws of the state, loans to municipalities of less than 5,000 population through purchase of municipal bonds, industrial development projects conducting exempt activities under federal law, and revenue bonds issued on behalf of a non-profit corporation with approval of the municipality.

The interest rate charged for loans will be standardized, and depending on the cost of the revenue bonds issued, which was projected at the 7% range in 1978, but may be between 7.5% and 8% in 1980. In the event that a reduction in the basic interest rate is deemed desirable, as for veteran's or educational loans, the difference in interest rates charged to the borrower and that paid to the Alaska Loan Programs Fund would be paid on a yearly basis from the general fund.

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

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

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

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

FUNDING OF THE ALASKA LOAN PROGRAMS FUND

In the 1977 study primary funding for the Alaska Loan Program would come from proceeds of revenue bonds. Revenue bonds are tax-exempt under Federal law, resulting in lower interest costs to the borrower. There would, however, be no limit on the amount lendable for public purpose loans - those to local government units, public utilities, hospitals, etc. If \$100 million of public purpose bonds are issued then 25 million of bonds could be issued for business purposes -- to include residential housing if the Congress repeals this category.

3) Allocated Reserve Account - General Fund, for the purpose of securing obligations of the Alaska Loan Program Bonds. It consists of 50% of the income of the Permanent Fund. The purpose here is to provide for better ratings on the bonds which in turn would lower interest costs. These funds transferred into various reserves described below.

4) Unallocated Reserve Account - General Fund. This fund consists of all available cash at the end of a fiscal year after \$100 million. This account provides security for the bonds plus provides funds for the Alaska Loan Program.

5) Comprehensive Loan Program - General Fund, consists of 15% oil and gas receipts. This adds to the Loan Program and security for bonds.

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

7) Fire Insurance and Liability Reserve Account - The Alaska Loan Program may issue loans without requiring proof of insurance if an additional amount of .6% is made by the borrower. The account shall only be used for reimbursement to the Loan Programs Fund for losses of property not having the insurance coverage.

1978 State Loan Programs and Independent Corporations

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

ALASKA LOAN PROGRAM

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

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

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

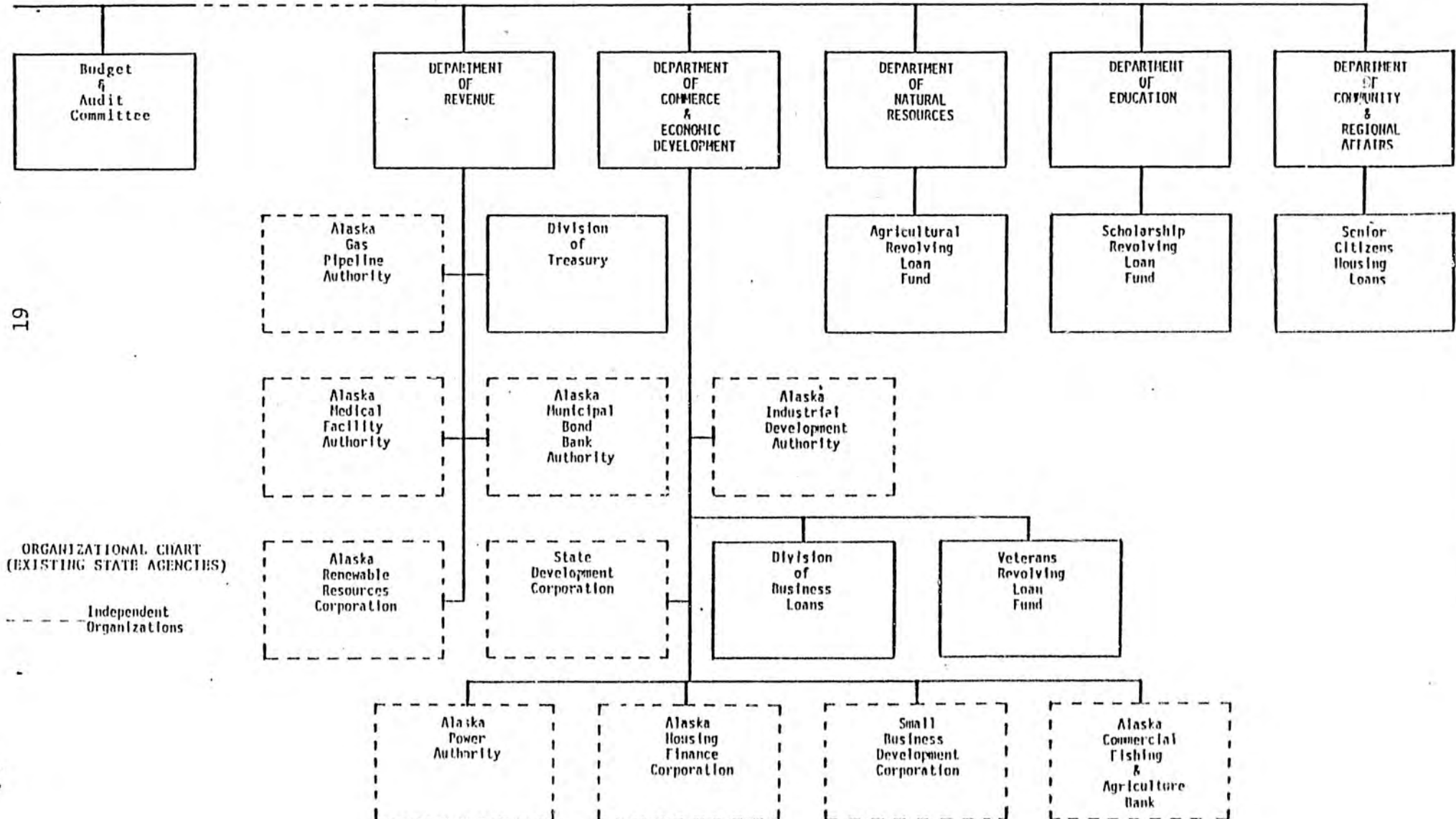
COLLATERAL: 80% appraised value of equipment
 90% appraised value of real property
 95% for residential where FHA mortgage not available

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	Index 1978		Index 1978
EDUCATIONAL	RESIDENTIAL	PUBLIC PURPOSE	COMMERCIAL
\$4,000 per yr/undergraduate 8,000 per yr/graduate 16,000 maximum outstanding	\$ 90,000 single dwelling 130,000 duplex 170,000 triplex 210,000 fourplex	Eligible Entities Boroughs and cities Municipalities Industrial development projects Non-profit corporations	\$500,000 max per individual \$5 million max per group or corporation assuming individual liability

LEGISLATIVE
BRANCH

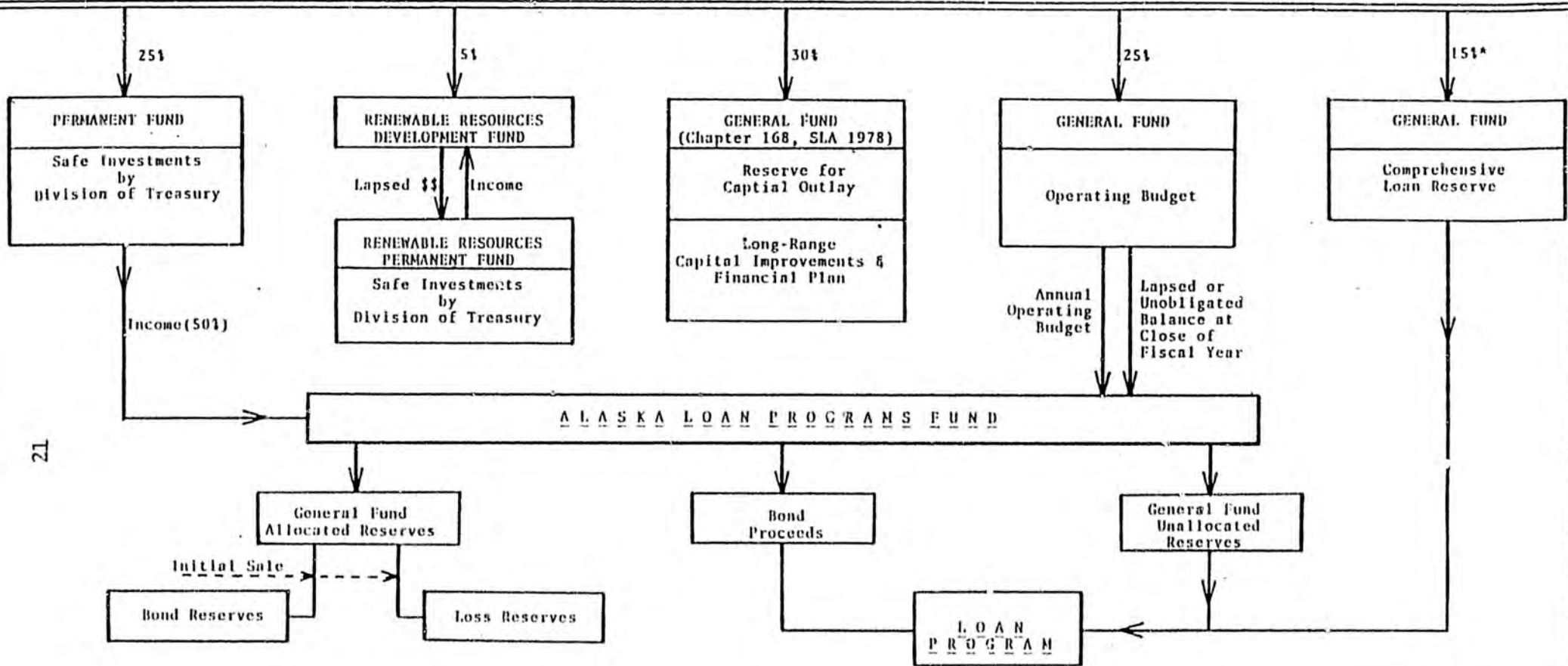
EXECUTIVE
BRANCH



ORGANIZATIONAL CHART
(EXISTING STATE AGENCIES)

Independent
Organizations

1 0 0 1 M I N E R A L R E C E I P T S



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Organizational Chart C

*Based on ANCSA repayment projections

Future needs of Alaska's citizens can be met from the savings accounts within the Alaska Loan Program, which are: all unallocated reserves (income from Permanent Fund) and unallocated reserve subaccount (General Fund contribution account). Projections indicate that in eight to ten years the oil & gas receipts will deteriorate. The bond program will be ready then to assume more of a position in the Alaska Loan Program.

COMPARATIVE SAMPLES

The following Samples A through D have been prepared by the Senate Special Committee on the Permanent Fund - 1978 Interest Level.

Sample A

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska - 1978 Interest Level.

Sample B

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Rural Alaska - 1978 Interest Level.

Sample C

A Comparative Sample of Available Home Improvement Loans and the Senate Proposed Alaska Loan Program - 1978 Interest Level.

Sample D

A Comparative Sample of Available Business Loans and the Senate Proposed Alaska Loan Program - 1978 Interest Level.

Sample E

A Comparative Sample of Available Loans and the Senate Proposed Alaska Loan Program in Rural Alaska - August 1979.

Sample F

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska - August 1979.

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Rural Alaska
1978 Interest Level

TERM: 30 year loan

SAMPLE: \$50,000 home

Lending Agency	Downpayment ¹	Interest	Monthly Pymts	Insurance ²	Total Cost
Federal National Mortgage Association	\$ 5,000.	9.5%	\$ 378.39	\$ 30,000.00	\$ 171,220.40
State Veterans Loan Program	5,000	7.5%	314.65	30,000.00	148,274.00
Federal Housing Authority	1,500	8.5%	372.93	30,000.00	165,754.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	30,000.00	151,060.40
State Banks ³ (not available; pro forma only)	5,000	9.6%	381.69	30,000.00	172,408.40
Farmer's Home Administration	NONE	8.0%	366.89	30,000.00	162,080.40
Alaska Loan Program	2,500	7.0%	316.02	6,832.80	123,100.00
Veteran Incentive	2,500	6.0%	284.79	6,555.60	111,580.00

¹ All the programs have 10% down with the exception of Farmer's Home (none); FHA (3%); and the Alaska Loan Program (5% for most of rural Alaska).

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

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

A Comparative Sample of Available Business Loans
And the Senate Proposed Alaska Loan Program
1978 Interest Levels

TERM: 15 years

SAMPLE: \$125,000 business loan
(no equipment costs)

Lending Agency	Value Limitation	Interest	Monthly Payments	Total Cost	
Small Business Administration	90%	9.5%	\$ 1,305.30	\$ 234,954.00	
Bank (pro forma only)	75%	9.5%	1,305.30	234,954.00	URBAN
	75%	9.8%	1,306.50	235,170.00	RURAL
Small Business Loan Fund (State)	75%	8.0%	1,194.60	215,028.00	
State Veterans Loan Fund	75%	7.5%	1,158.80	208,584.00	
Alaska Loan Program	90%	7.0%	1,123.60	202,248.00	
Veterans Incentive	90%	6.0%	1,054.90	189,882.00	

The actual maximum loan amounts for each program listed as follows:

SBA guarantees
Bank
Small Business (state)
Alaska Loan Program

None given
Varies statewide
\$ 300,000
\$ 500,000 per individual
\$ 5 million for group of 10
individuals per project

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

TERM: 30 year loan

SAMPLE: \$50,000 home

LENDING AGENCY	DOWNPAYMENT ¹	INTEREST	MONTHLY PAYMENTS	INSURANCE ²	TOTAL COST
Federal National Mortgage Assoc. (1979)	\$5,000 (2,500)	9.5% (11.6%)	\$378.39 (\$474.02)	\$30,000.00 (same)	\$171,220.40 (\$203,145.75)
State Veterans Loan Program (1979 - no change)	5,000	7.5%	314.65	30,000.00	148,274.00
Federal Housing Authority (1979)	1,500 (1,750)	8.5% (10.0%)	372.93 (423.43)	30,000.00 (same)	165,754.80 (\$184,184.18)
Alaska Housing Finance Corp. (1979)	5,000 (2,500)	7.75% (8.75%)	322.39 (373.68)	30,000.00 (same)	151,060.40 (167,024.80)
State Banks ³ (not available; pro forma only) (1979)	5,000 (2,500)	9.6% (11.6%)	381.69 (474.02)	30,000.00 (same)	172,408.40 (203,145.75)
Farmer's Home Administration (1979 no subsidy) (1979 subsidized)	NONE	8.0% (9.0%) (1.0%)	366.89 (402.31) (160.82)	30,000.00 (same) (same)	162,080.40 (174,832.07) (87,895.13)
Alaska Loan Program	2,500	7.0%	316.02	6,832.80	123,100.00
Veteran Incentive	2,500	6.0%	284.79	6,555.60	111,580.00
Juneau Borough Program ⁴		8.65%			
5% down	2,500		370.31	7,500	144,356.20
10% down	5,000		350.82	7,500	139,795.20
15% down	7,500		331.33	7,500	135,228.80
Jefferson Parish ⁵	2,500	7.625%	336.20	7,500	131,657.73
State of Alaska Retirement Investment Fund (Dept. of Revenue)	5,000	11.5%	445.63	7,500	172,927.21

1. All the programs have 10% down with the exception of Farmer's Home (none); FHA (3%); and the Alaska Loan Program (5% for most of rural Alaska).

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

TERM: 30 year loan

SAMPLE: \$50,000 home

LENDING AGENCY	DOWNPAYMENT ¹	INTEREST	MONTHLY PAYMENTS	INSURANCE ²	TOTAL COST
Federal National Mortgage Assoc. (1979)	\$5,000 (\$2,500)	9.5% (11.6%)	\$378.39 (\$474.02)	\$7,500.00 (same)	\$148,720.40 (\$180,645.75)
State Veterans Loan Program (1979) - no change)	5,000	7.5%	314.65	7,500.00	125,774.00
Federal Housing Authority (1979)	1,500 (1,750)	8.5% (10.0%)	372.93 (423.43)	7,500.00 (same)	143,254.80 (161,684.18)
Alaska Housing Finance Corp. (1979)	5,000 (2,500)	7.75% (8.75%)	322.39 (373.68)	7,500.00 (same)	128,560.40 (144,524.80)
State Banks ³ (not available; pro forma only) (1979)	5,000 (2,500)	9.2% (11.6%)	368.21 (474.02)	7,500.00 (same)	145,051.60 (180,645.75)
Alaska Loan Program	5,000	7.0%	299.39	6,699.60	119,480.00
Veteran Incentive	5,000	6.0%	269.80	6,192.00	108,320.00
Juneau Borough Program ⁴		8.65%			
5% down	2,500		370.31	7,500	144,356.20
10% down	5,000		350.82	7,500	139,795.20
15% down	7,500		331.33	7,500	135,228.80
Jefferson Parish ⁵	2,500	7.625%	336.20	7,500	131,657.73
State of Alaska Retirement Investment Fund (Dept. of Revenue)	5,000	11.5%	445.63	7,500	172,927.21

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

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

I L L U S T R A T I O N S

The following Illustrations have been prepared by the Senate Special Committee on the Permanent Fund and give examples of loans that could be made through the Alaska Loan Program and the Renewable Resources Division.

*Loans Made in Conjunction with the Renewable Resources Division
(Senate Original Position)

Illustration A

Bottom Fish Processing Plant

Illustration B

Fishing Boat

Commercial Loans Made through the Alaska Loan Program

Illustration C

Retail Store and Housing Development Project

*Note that the Senate's original position was that a Renewable Resource Division within the Department of Commerce and Economic Development be utilized in lieu of a separate corporation. The division personnel would be project oriented and advocates for these development projects. These illustrations indicate only how the Alaska Loan Program can be used as of February 1980.

RENEWABLE RESOURCES DIVISION

Illustration A

PROJECT: Bottom Fish Processing Plant

		<u>Alaska Loan Program</u>		<u>Equity</u>
Real Estate	\$ 3,000,000	90%	\$2,700,000	\$300,000
Equipment	2,000,000	80%	1,600,000	400,000
	<hr/>		<hr/>	<hr/>
	\$ 5,000,000		\$4,300,000	\$700,000

A 50% equity position by the Renewable Resources Development Fund = \$350,000

* Interest Cost = 7% over the life of the loan.

Note: With section 284 of the Alaska Loan Program, included in the above cost are:

- 1) Interest during construction (12 - 18 months)
- 2) Interest, costs, and working capital for 30 months

Therefore, the project has not paid anything from earnings for 48 months.

* 1978 Interest Level.

RENEWABLE RESOURCES DIVISION

Illustration B

PROJECT: Fishing Boat

			Alaska Loan Program	Equity
Fishing vessel	\$ 150,000	90%	\$ 135,000	\$ 15,000
Equipment	30,000	80%	24,000	6,000
	<hr/>		<hr/>	<hr/>
	\$ 180,000		\$ 159,000	\$ 21,000

- *Division of Renewable Resources may:
- 1) supply an interest incentive
 - 2) hold 50% equity position equal to \$ 10,500.

* Senate original program now must use Alaska Renewable Resources Corporation.

ALASKA LOAN PROGRAM
COMMERCIAL LOANS

Illustration C

PROJECT: Retail Store

		<u>Alaska Loan Program</u>		<u>Equity</u>
Real Estate	\$ 400,000	90%	\$ 360,000	\$ 40,000
Equipment	100,000	80%	80,000	20,000
	<u>\$ 500,000</u>		<u>\$ 440,000</u>	<u>\$ 60,000</u>

PROJECT: Housing Development *

		<u>Alaska Loan Program</u>		<u>Equity</u>
Real Estate	\$5,000,000	90%	\$ 4,500,000	\$ 500,000

* Project has participation of 10 individuals each assuming individual liability.

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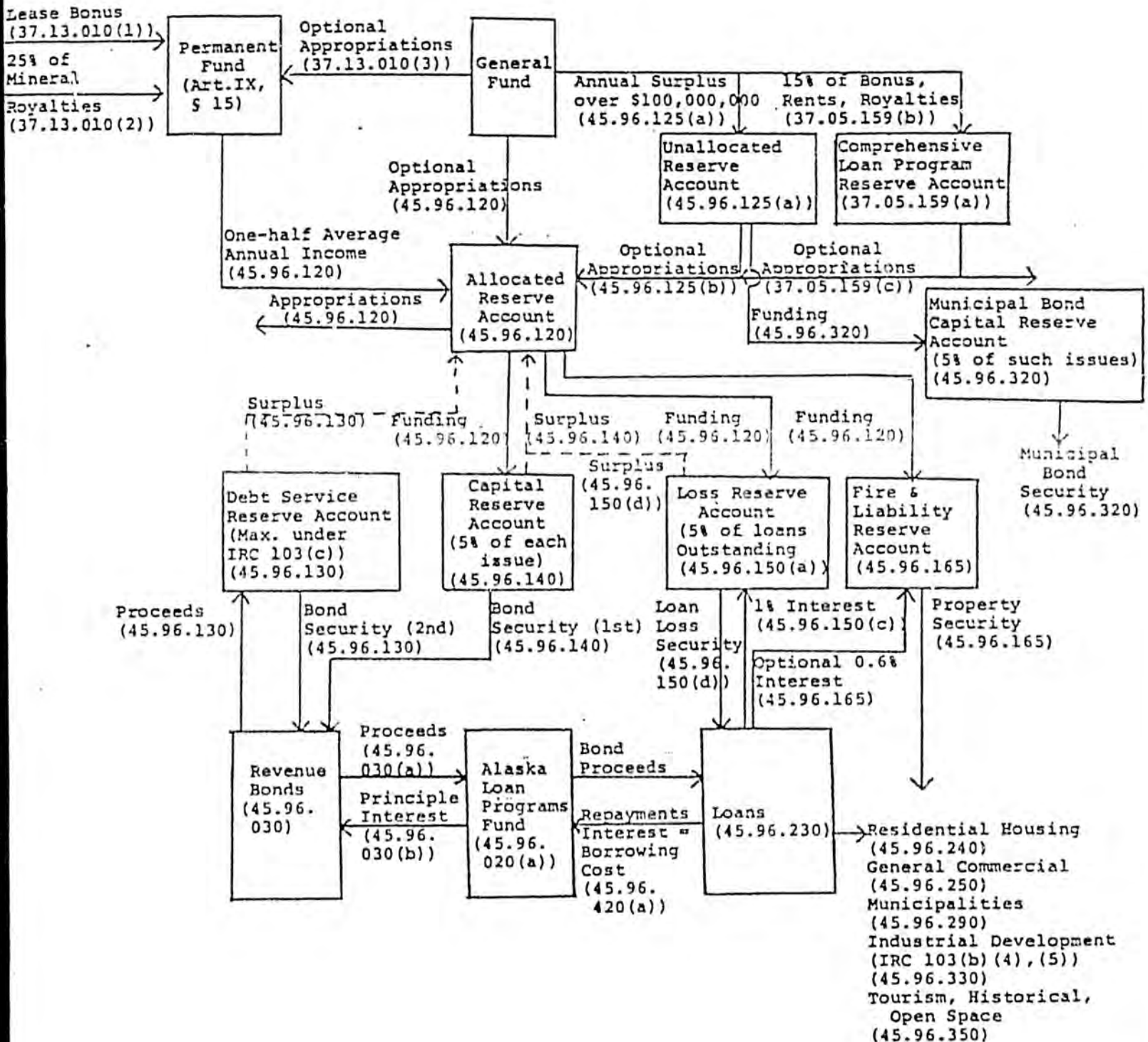
REPEALERS -- SB 1 (1980)

The following existing loan funds, authorities, and development corporations are effectively repealed by the current version of SB 1.

- 03.10 Agricultural Revolving Loan Fund
- 16.10 Commercial Fishing Revolving Loan Fund
- 16.10 Fisheries Enhancement Revolving Loan Fund
- 18.26 Alaska Medical Facility Authority
- 18.56 Alaska Housing Finance Corporation
- 18.100 Housing Development Revolving Loan Fund (allows grants only)
- 18.100 Senior Citizens Housing Development Fund (allows grants only)
- 26.15 Veterans Revolving Loan Fund
- 41.22 Outdoor Recreational, Open Space, and Historical Properties Development Fund
- 41.30 Area Redevelopment Revolving Loan Fund
- 44.33 Child Care Facility Revolving Loan Fund
- 44.33 Residential Care Facility Revolving Loan Fund
- 44.55 Alaska Gas Pipeline Financing Authority
- 44.56 Alaska Power Authority
- 44.58 Alaska Municipal Bond Bank Authority
- 44.59 Alaska State Development Corporation
- 44.60 Alaska Small Business Development Corporation
- 44.61 Alaska Industrial Development Corporation
- 45.86 Water Resources Revolving Loan Fund
- 45.88 Alternative Technology and Power Resources Revolving Loan Fund
- 45.90 Tourism Revolving Loan Fund
- 45.95 Small Business Revolving Loan Fund
- 45.98 Historical District Revolving Loan Fund

Existing funds and corporations which are not repealed by SB 1 are:

- 14.40 Scholarship Revolving Loan Fund (apparently an oversight)
- 14.40 Memorial Scholarship Revolving Loan Fund (apparent oversight)
- 44.47 Temperate Social Activities Revolving Loan Fund
- 44.56 Power Project Revolving Fund (an oversight?)
- 44.19 Disaster Relief Fund
- 37.11 Alaska Economic Disaster Impact Fund
- 37.12 Alaska Renewable Resources Corporation
- 44.54 Commercial Fishing and Agriculture Bank



*next to last*Work Order #57
BerrierOriginal sponsor: Hohman

1 IN THE SENATE

BY THE RULES COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 1 (Rules)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska loan programs fund, the
7 Alaska permanent fund, and state investment policy and
8 other state revenues; changing Rule 45, Rules of Appellate
9 Procedure; and providing for an effective date.

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

11 * Section 1. AS 24.20.151 is amended to read:

12 Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTAB-
13 LISHED. The Legislative Budget and Audit Committee is established as
14 permanent interim committee of the legislature. The establishment of
15 the committee recognizes the need of the legislature for full-time
16 technical assistance in accomplishing the fiscal analysis, budget re-
17 view, investment oversight and post-audit functions.

18 * Sec. 2. AS 24.20.201(a) ^{change of 2014} is amended by adding new paragraphs to read:

19 (8) make recommendations concerning the structure and opera-
20 ting practices of all agencies of the state which perform lending or
21 investment functions;

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

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

26 Sec. 24.20.321. INVESTMENT OVERSIGHT DIVISION. The investment
27 oversight division is established as a permanent staff agency respon-
28 sible to the Legislative Budget and Audit Committee for the performance
29 of oversight and review functions to provide information on the policy

1 and performance of all agencies of the state which perform lending or
2 investment functions.

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

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

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

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

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

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

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

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

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

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

3 (2) alternative investment policy for the general fund sur-
4 plus.

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

6 CHAPTER 13. ALASKA PERMANENT FUND.

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

10 (1) one hundred per cent of mineral lease bonuses after
11 deduction of amounts allocated

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

14 (B) in AS 37.11.020 to the Alaska renewable resources
15 development fund;

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

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

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

23 Sec. 37.13.020. INVESTMENT OF THE PERMANENT FUND. (a) The
24 prudent-man rule is applicable to the management and investment of
25 permanent fund assets. The prudent-man rule as applied to investments
26 of the permanent fund means that in making investments the commissioner
27 of revenue shall exercise the judgment and care under the circumstances
28 then prevailing which an institutional investor of ordinary prudence,
29 discretion, and intelligence exercises in the management of large in-

1 vestments entrusted to it not in regard to speculation but in regard to
2 the permanent disposition of funds, considering the probable income from
3 them as well as probable safety of capital.

4 (b) The permanent fund assets may only be used for income-pro-
5 ducing investments.

6 (c) The commissioner shall seek to maintain a reasonable diversi-
7 fication among corporation investments unless under the circumstances
8 is clearly prudent not to do so.

9 (d) The commissioner shall submit long-range and quarterly inves-
10 tment reports to the Legislative Budget and Audit Committee.

11 (e) Subject to (a) and (b) of this section, unless otherwise
12 instructed in accordance with AS 37.13.090, the commissioner may invest
13 permanent fund assets in obligations of, or obligations insured or
14 guaranteed by, the United States or agencies or instrumentalities of the
15 United States; corporate securities which under the Securities Act of
16 1933 are freely marketable; and short-term investments which meet the
17 requirements of (a) and (b) of this section except for the term of the
18 investments.

19 (1) No portion of the assets of the permanent fund may be
20 used in the purchase of stock of a corporation which is not paying
21 dividends on that stock in cash at the time of purchase; nor in the
22 purchase of bonds of a corporation, upon which any regular interest
23 payment has been defaulted within five years before purchase, except
24 bonds never in default but which have been outstanding for less than
25 five years.

26 (2) No portion of the assets of the permanent fund may be
27 used in the purchase of stock if immediately following the purchase the
28 proportionate market value of all stocks held by the fund would exceed
29 30 per cent of the assets of the fund.

1 (f) Subject to (a) and (b) of this section, unless otherwise
2 instructed in accordance with AS 37.13.090, the commissioner may invest
3 permanent fund assets in

- 4 (1) Federal Housing Administration mortgages;
- 5 (2) Federal Veterans Administration mortgages;
- 6 (3) conventional residential mortgages if the offering fi-
7 nancial institution retains at least 25 per cent of the mortgage.

8 (g) To qualify as a mortgage or secured loan which may be pur-
9 chased by the commissioner under (h) of this section, the mortgage or
10 secured loan shall

- 11 (1) be secured by real estate in the state;
- 12 (2) have as a mortgagor an Alaska resident or a corporation
13 in which at least 60 per cent of the stock is owned by Alaska resident
- 14 (3) be certified by the originating financial institution
15 that the loan being sold has been made in compliance with law and that
16 liens supporting the loan have been perfected;
- 17 (4) have no initial closing fees or service fees which exce
18 one-half of one per cent, excluding closing costs.

19 (h) The commissioner may purchase loans provided for in (f) of
20 this section only from financial institutions which are operating unde
21 the national banking laws, federal savings and loan laws, or under the
22 provisions of AS 06.05, AS 06.15, AS 06.25 or AS 06.30.

23 (i) The commissioner shall establish and from time to time as
24 necessary modify guidelines for the investment of permanent fund asset
25 Before adoption of any investment guidelines, the guidelines shall be
26 reported to the Legislative Budget and Audit Committee for review and
27 comment. Nothing in this section may be interpreted to preclude in-
28 state investments that have a risk level and expected yield comparable
29 to alternative investment opportunities.

1 Sec. 37.13.030. GAINS AND LOSSES. At the end of each fiscal year
 2 the total amount of losses on the sales of securities, not offset by
 3 gains on the sales of securities during that year, shall be computed,
 4 with a portion of these losses to be deducted each fiscal year from the
 5 interest and dividend income and the resulting amount of interest and
 6 dividend income added to the principal of the fund. Losses taken on the
 7 sales of bonds shall be accumulated over a period equal to the average
 8 remaining life of the bonds sold, and losses taken on the sales of
 9 stocks shall be accumulated within a period of five years, unless these
 10 losses are offset by gains on future sales of securities. In any fiscal
 11 year in which the gains on the sales of securities exceed the losses on
 12 the sales of securities, the excess shall be added to the principal of
 13 the fund.

14 Sec. 37.13.040. INCOME. The interest and dividends received in a
 15 year are the income of the permanent fund for that year. The income
 16 available for allocation shall be determined on an averaging basis. The
 17 income shall be allocated in accordance with AS 37.13.080 and AS 45.96.
 18 120. For the first five years, income will be the simple averaging of
 19 the annual current return at cost. Subsequently, there will be a moving
 20 average current return, in which the latest fiscal year will replace the
 21 oldest year. The income available for allocation will be the lesser of
 22 the latest fiscal year's income, or the average annual current income
 23 for the past five fiscal years of the fund at cost, and after adjustment
 24 for capital losses charged to that fiscal year.

25 Sec. 37.13.050. BUDGET. The operating budget is from the general
 26 fund unless the legislature specifically appropriates from the unallo-
 27 cated reserve and is subject to the Executive Budget Act (AS 37.07).

28 Sec. 37.13.060. ACCOUNTING. Accounting for the fund shall be
 29 provided by the Department of Administration. Reports shall be made by

1 that department to the Department of Revenue, the Department of Commerce
2 and Economic Development, and the Legislative Budget and Audit Committee
3 on at least a monthly basis. These reports shall include an itemization
4 of each loan which has been in default for a period in excess of 30 days
5 and the measures taken for each to insure compliance with terms and
6 conditions of the loan. The Legislative Budget and Audit Committee
7 shall provide quarterly reports to the legislature summarizing the
8 information it receives under this section and under AS 37.13.020(d) and
9 (i) and including comments and suggestions the committee determines to
10 be of interest to the legislature relating to the administration of the
11 fund.

12 Sec. 37.13.070. REPORTS AND PUBLICATIONS. No later than September
13 30 of each year, the commissioner of revenue shall publish a report
14 for distribution to the governor, legislature, and the public. The
15 report shall be written in easily understandable language. The report
16 must include financial statements audited by the legislative audit
17 division, a statement of the amount of money received by the permanent
18 fund from each investment during the period covered, a statement of fund
19 investments including an appraisal at market value, a description of
20 fund investment activity during the period covered by the report, an
21 examination of the impact of the investment criteria of this chapter on
22 the fund portfolio with recommendations for any needed changes and any
23 other information the commissioner believes would be of interest to the
24 governor, the legislature, and the public. The annual income statement
25 and balance sheet of the fund shall be published in at least one news-
26 paper in each judicial district. The income statement and balance sheet
27 for the two fiscal years preceding the publication of the election
28 pamphlet under AS 15.57 shall be included in that pamphlet.

29 Sec. 37.13.080. DISTRIBUTION OF INCOME TO RESIDENTS. (a) No

1 later than June 30, 1981, the commissioner of revenue shall issue one
2 share of the Alaska permanent fund to each resident of the state, re-
3 gardless of age, who has been a resident continuously since July 1,
4 1980, and who, no later than February 1, 1981, has filed with the com-
5 missioner a statement of residency. The commissioner shall notify the
6 public of the availability of shares under this subsection and the
7 method for qualifying for shares. The notification shall be by publi-
8 cation in at least one newspaper of statewide circulation, by radio and
9 television announcements, and by other means the commissioner determines
10 to be appropriate and reasonable.

11 (b) One share issued under (a) of this section represents the
12 total principal amount of the permanent fund at the time of the annual
13 distribution of income under (c) of this section divided by the number
14 of shares issued.

15 (c) Beginning July 1, 1981, and annually thereafter, the commis-
16 sioner shall distribute one-half of the net income after allocations
17 required in AS 37.13.140(f) and AS 45.96.120 from general investments
18 the permanent fund for the previous fiscal year to the qualified share-
19 holders in accordance with the procedures established by this section.

20 (d) The net income from general investments of the permanent fund
21 shall be distributed to shareholders in proportion to the amounts of
22 their shares which are in general investments. The amount or a part of
23 the amount represented by one share is considered to be in general
24 investments if the shareholder has not elected to direct under AS 37.-
25 13.090 the amount or part of the amount represented by the share.

26 (e) A share issued under this section is not transferable by sale,
27 donation, lien, judgment, devise, or any other method. Alienation of
28 share is void as against public policy. Upon a shareholder's death or
29 the termination of his residency, his share lapses to the state and

1 shall be counted as a full share for the purposes of (b) of this sec-
2 tion. The lapsed share shall be invested for the state by the commis-
3 sioner in accordance with AS 37.13.020. Income of the lapsed share
4 shall be allocated to the general fund.

5 (f) Possession of a share imparts no right to ownership or posse-
6 sion of the principal of the permanent fund it represents; possession of
7 a share imparts only those rights specified in AS 37.13.080 - 37.13.150

8 Sec. 37.13.090. DIRECTED INVESTMENTS. (a) Within 60 days after
9 the determination under (b) of this section of the amount of permanent
10 fund principal available to each shareholder for directed investments,
11 shareholder may notify the commissioner of his election to direct the
12 investment of the available amount of permanent fund principal or a part
13 of it. The shareholder may direct investments to be made in any of the
14 investments listed by the commissioner in accordance with AS 37.13.130-
15 (b). The notification shall indicate the specific investments to be
16 made and the specific amounts to be invested. Unless the shareholder
17 notifies the commissioner otherwise, the commissioner shall consider any
18 investments directed by the shareholder from the previous determination
19 under (b) of this section as part of the shareholder's directions for
20 the current determination. The commissioner shall distribute net income
21 as it is received from investments made under this subsection to the
22 shareholder directing the investments.

23 (b) The amount of permanent fund principal for which the share-
24 holder may direct investments under this section shall be determined by
25 the commissioner no later than February 1, 1980, when the principal of
26 the permanent fund reaches \$3 billion and at each \$1 billion increase in
27 principal thereafter. The amount of permanent fund principal available
28 to a shareholder for directed investments is equal to the value of one
29 share, as determined under AS 37.13.080(b). The commissioner shall give

1 public notice of the amount available for directed investments by publi
2 cation in at least one newspaper of statewide circulation, by radio and
3 television announcements, and by any other means the commissioner deter
4 mines to be reasonable and appropriate.

5 (c) Upon receipt of notification provided in accordance with (a)
6 of this section, the commissioner or his designee shall make investment
7 of permanent fund principal in accordance with the notification.

8 (d) If the notification under (c) of this section is defective in
9 that it directs investment of an amount greater than that which is
10 available under (b) of this section to a shareholder, or in that it
11 contains directions which are unclear or which the commissioner or his
12 designee is not able to follow, the commissioner or his designee shall
13 make reasonable efforts to expeditiously inform the shareholder of the
14 defect. If the shareholder fails to revise his directions to cure the
15 defect or fails to notify the commissioner or his designee of the revi-
16 sion within the time period established in (a) of this section, or if
17 there is insufficient time to allow the commissioner or his designee to
18 inform the shareholder of the defect within the time period established
19 in (a) of this section, the shareholder's investment directions are
20 void, and the shareholder shall share in the distribution of income
21 under AS 37.13.080.

22 (e) If the notification under (c) of this section directs invest-
23 ment of an amount less than that which is available under (b) of this
24 section to a shareholder, the commissioner or his designee shall make
25 the investments specified in the notification, and the shareholder shall
26 receive, in addition to net income earned by the directed investments, a
27 proportionate share of the distribution of net income under AS 37.13.080
28 for the amount not invested by his direction.

29 (f) A shareholder may direct the commissioner or his designee to

1 sell an investment directed under (a) of this section at any time. The
2 shareholder may direct the investment of the principal recovered at the
3 sale in another eligible investment under (a) of this section or may
4 allow the principal recovered at the sale to be invested by the commis-
5 sioner in accordance with AS 37.13.020. If the shareholder decides to
6 allow investment by the commissioner in accordance with AS 37.13.020,
7 the shareholder may not direct any investments until the next determi-
8 nation under (a) of this section.

9 (g) The commissioner shall invest, in accordance with AS 37.13.-
10 020, and distribute the net income of, in accordance with AS 37.13.080,
11 any increase in permanent fund principal during periods between deter-
12 minations under (b) of this section.

13 Sec. 37.13.100. DETERMINATION OF RESIDENCY. (a) An individual
14 who applies for a share of the Alaska permanent fund must prove his
15 eligibility to the satisfaction of the commissioner. The commissioner
16 may not issue an individual a share or make a payment to an individual
17 until proof of that individual's eligibility sufficient to satisfy a
18 reasonable person has been made to the commissioner.

19 (b) Proof of eligibility may be from school attendance records,
20 state and local tax and licensing records, voter registration records,
21 birth and marriage certificates, selective service records, sworn affi-
22 davits from others having knowledge of an individual's residence, and
23 from other forms of documentary evidence which a reasonable person would
24 rely on in the conduct of his own affairs. An affidavit from an indi-
25 vidual without supporting evidence of eligibility is not satisfactory
26 proof of eligibility.

27 (c) Upon determination of an individual's eligibility for a share,
28 the commissioner shall, by first class mail, notify the individual of
29 that determination. If the individual is determined to be ineligible,

1 he shall be informed by certified mail, of the following:

2 (1) the reason for his ineligibility;

3 (2) that he may file additional proof and file a request for
4 a hearing before the commissioner to present proof of his eligibility;
5 and

6 (3) that the decision becomes final and unappealable 30 days
7 after receipt of the notification unless, within that time, the individual
8 files additional proof or files a request for a hearing before the
9 commissioner.

10 (d) If an individual does not file additional proof or file a
11 request for a hearing with the commissioner within 30 days after his
12 receipt of the commissioner's notice of the determination, the commissioner's
13 decision becomes final as to the period involved and there is
14 no further appeal. The time limit is jurisdictional.

15 (e) If an individual files additional proof or files a request for
16 a hearing with the commissioner within 30 days after he receives the
17 commissioner's notice of the determination and, after the additional
18 evidence has been considered or the hearing held, he is still determined
19 to be ineligible, he may appeal to the superior court within 30 days
20 after he receives notice of the final decision. The time limit is
21 jurisdictional, and no appeal may be brought after it has elapsed. In
22 considering the appeal, the superior court may review solely on the
23 record which was before the commissioner and must apply the reasonable
24 basis test to factual matters and its own judgment on the law. The same
25 standard of review applies if a further appeal is taken to the supreme
26 court.

27 Sec. 37.13.110. CONFIDENTIALITY. An investment made at the direction
28 of a shareholder in accordance with AS 37.13.090(a) is confidential.
29

1 Sec. 37.13.120. REGULATIONS. The commissioner may adopt regula-
2 tions in accordance with the Administrative Procedure Act (AS 44.62) for
3 the administration and enforcement of AS 37.13.080 - 37.13.150.

4 Sec. 37.13.130. ELIGIBLE DIRECTED INVESTMENTS. (a) The commis-
5 sioner shall, by regulation, establish a list of at least 100 specific
6 investments which may be made at the direction of shareholders in acco-
7 dance with AS 37.13.020(a) and (b). The commissioner shall include in
8 the list only those investments which accord with the prudent-man rule

9 (b) An investment of permanent fund principal made under AS 37.-
10 13.020(a) and (b) in an investment which is removed by the commissione
11 from the list of eligible investments shall be redeemed by the commis-
12 sioner or his designee at the earliest possible time, and the commis-
13 sioner or his designee shall notify the shareholder at whose direction
14 the investment was made of the redemption. The shareholder may direct
15 the commissioner to reinvest the amount redeemed in eligible investment
16 in accordance with AS 37.13.020(a) and (b). *- the 4 B.*

17 Sec. 37.13.140. ALASKA PERMANENT FUND INVESTMENT FUND. (a) There
18 is established as a separate fund a special account within the permanent
19 fund called the Alaska permanent fund investment fund. The state bond
20 *bonds* committee may issue negotiable or nonnegotiable evidences of indebted-
21 ness on the terms and conditions the committee determines appropriate in
22 order to provide money to carry out the purposes of the fund. The
23 principal and interest on the indebtedness is payable from income or
24 assets of the fund.

25 (b) Obligations issued under the provisions of this section are
26 not a debt, liability or obligation of the state but are payable solely
27 from the revenues or ^{state capital} assets of the fund. Each obligation issued under
28 this section shall contain on its face a statement that the fund is not
29 obligated to pay it nor the interest on it except from the revenues or

1 assets pledged for it and that neither the faith and credit nor the
 2 taxing power of the state or of a political subdivision of the state is
 3 pledged to the payment of the principal of or interest on the obliga-
 4 tion.

5 (c) The purpose of the investment fund is to provide an initial
 6 source of capital for the permanent fund investment program established
 7 by this chapter. Any income from the investment fund in excess of the
 8 income necessary for debt service and any required reserves is distri-
 9 buted to shareholders of the permanent fund as income from the permanen
 10 fund is distributed.

11 (d) The money in the investment fund available for investment
 12 shall be invested as provided for investment of permanent fund princi-
 13 pal. For purposes of determining the amount available to be invested by
 14 each shareholder in directed investments, the amounts available under
 15 this section shall be divided by the number of shares issued added to
 16 the value of each share as determined under AS 37.13.080(b).

17 (e) To the extent that money is available from permanent fund
 18 principal for investments other than directed investments, the commis-
 19 sioner of revenue shall transfer investments of the investment fund to
 20 the principal of the permanent fund at the market value of the invest-
 21 ment at the time of the transfer. Money received as a result of the
 22 transfer may only be used for payment of principal of debt of the in-
 23 vestment fund.

24 (f) For the purpose of securing obligations of the fund, the com-
 25 mittee shall establish a special account called the debt service reserve
 26 account. One-half of the income from the ^{the investment fund} Alaska permanent fund estab-
 27 lished in AS 37.13.010 is allocated to the account. Money held in the
 28 debt service reserve account may be used as required solely for (1) the
 29 payment of the principal of obligations, (2) the purchase or redemption

1 of obligations, (3) the payment of interest on obligations, or (4) the
2 payment of any redemption premium required to be paid when those obli-
3 gations are redeemed before maturity. Any amount remaining in the debt
4 service reserve account when the obligations the account secures is
5 fully retired shall be paid to the permanent fund established in AS 37.
6 13.010. When the money in the debt service reserve account reaches an
7 amount determined by the commissioner to be adequate to secure obliga-
8 tions issued under this section the income from the Alaska permanent
9 fund allocated to the debt service reserve account shall be deposited in
10 the permanent fund.

11 Sec. 37.13.150. DEFINITIONS. For the purposes of AS 37.13.080 -
12 37.13.150,

13 (1) "commissioner" means the commissioner of revenue;

14 (2) "directed investments" means investments of permanent
15 fund principal made by the commissioner of revenue or his designee under
16 the direction of a shareholder in accordance with AS 37.13.020(a) and
17 (b);

18 (3) "general investments" means investments of permanent fund
19 principal made by the commissioner of revenue or his designee in accor-
20 dance with AS 37.13.020 but not under the direction of a shareholder in
21 accordance with AS 37.13.090;

22 (4) "net income" means total income to the Alaska permanent
23 fund reduced by costs directly related to the attainment of income;

24 (5) "resident" means an individual who maintains a permanent
25 place of abode in the state with the intention of making the state his
26 permanent place of residence and who resides in the state continuously
27 except for temporary purposes only and with the intent of returning; no
28 person may be considered to have gained a residence solely by reason of
29 his presence nor may he lose it solely by reason of his absence while in

1 the civil or military service of this state or of the United States or
 2 of his absence because of marriage to a person engaged in the civil or
 3 military service of this state or the United States; while a student at
 4 an institution of learning; while in an institution or asylum at public
 5 expense; while confined in public prison; while engaged in the naviga-
 6 tion of waters of this state, of the United States, or of the high seas;
 7 or while residing upon an Indian or military reservation; a minor takes
 8 the residence of his parent or of his legal guardian; a married woman
 9 shall establish her own residence and does not presumptively take the
 10 residence of her husband;

1 (6) "shareholder" means a person to whom the commissioner of
 2 revenue issues a share of the Alaska permanent fund under AS 37.13.080.

3 * Sec. 6. AS 45 is amended by adding a new chapter to read:

4 CHAPTER 96. ALASKA LOAN PROGRAMS FUND. *H. Simon*

5 Sec. 45.96.010. PURPOSE. Efficient use of the capital resources
 6 of the state will be promoted by creating a single loan fund to provide
 7 a single source from which potential users can acquire a state loan and
 8 obtain information about existing federal or private loan programs which
 9 will better serve the needs of the user or which will complement a
 10 proposed state loan. A single state source of lending will provide
 1 strong assurance of repayment of its loans and thereby lower the cost of
 2 borrowing to the state. The purpose of the loan programs fund is to
 3 provide the lowest possible interest costs to Alaska borrowers con-
 4 sistent with sound financial practices and to make available to all
 5 sectors of the Alaska economy loans including long-term financing. A
 6 strong, single loan source, by being available to secure interest rates
 7 and terms better than those available to loan funds limited in size for
 8 a specific purpose, will make a significant contribution to lowering
 9 costs of living for Alaska residents and costs of operations in the

1 private and public sector.

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

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

15 (c) The division of Alaska loan programs shall manage the loan
16 programs fund in accordance with AS 45.96.010 - 45.96.490.

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

20 (b) The principal and interest on these bonds or bond anticipation
21 notes are payable from assets of the fund. Bond anticipation notes may
22 be payable from the proceeds of the sale of bonds or from the proceeds
23 of sale of other bond anticipation notes or, if bond or bond anticipa-
24 tion note proceeds are not available, the bond anticipation notes may be
25 paid from other assets of the fund. Bonds or bond anticipation notes
26 may also be secured by a pledge of a grant or contribution from the
27 federal or state government, a corporation, association, institution or
28 person, or a pledge of money, income, or revenues of the fund from any
29 source.

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

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

20 (e) If an officer whose actual or facsimile signature appears on
21 any bonds or notes or coupons attached to them ceases to be an officer
22 before the delivery of the bond, note or coupon, his signature is valid
23 as if he had remained in office until delivery.

24 (f) In authorizing or issuing bonds or bond anticipation notes,
25 the state bond committee may, with holders of the bonds or bond antici-
26 pation notes, make covenants as may be necessary or desirable, to better
27 secure bonds or notes or which, in the discretion of the committee, will
28 tend to make bonds or notes more marketable and shall, for each issue,
29 create a principal and interest account for repayment of the principal

1 and interest of that issue.

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

13 Sec. 45.96.050. REMEDIES. A holder of obligations issued under
14 the provisions of this chapter or coupons attached to them if not re-
15 stricted by the resolution, either at law or in equity, may enforce all
16 rights granted under the coupons or under any other contract executed by
17 the fund under this chapter, and may enforce and compel the performance
18 of all duties required by this chapter to be performed by the fund or by
19 an officer of it.

20 Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and
21 interest coupons attached to the obligations are negotiable instruments
22 under the laws of this state, subject only to applicable registration
23 provisions.

24 Sec. 45.96.070. OBLIGATIONS ELIGIBLE FOR INVESTMENT. Obligations
25 issued under the provisions of this chapter are securities in which all
26 public officers and public bodies of the state and its political sub-
27 divisions, all insurance companies, trust companies, banking associ-
28 ations, investment companies, executors, administrators, trustees and
29 other fiduciaries may properly and legally invest funds, including

1 capital in their control or belonging to them. These obligations may
2 deposited with the state or municipal officer of an agency or political
3 subdivision of the state for any purpose for which the deposit of bonds
4 notes or obligations of the state is authorized by law.

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

16 (b) Refunding obligations may be sold or exchanged for outstanding
17 obligations issued under this chapter. If sold, the proceeds may be
18 applied, in addition to other authorized purposes, to the purchase,
19 redemption or payment of the outstanding obligations. Pending the
20 application of the proceeds of refunding obligations, with any other
21 available funds, to the payment of the principal (accrued interest and
22 any redemption premium on the obligations being refunded, and if so
23 provided or permitted in the authorization for issuance of the refunding
24 obligations, to the payment of any interest on the refunding obligations
25 and any expenses in connection with the refunding), the proceeds may be
26 invested in direct obligations of, or obligations the principal of and
27 the interest on which are unconditionally guaranteed by, the United
28 States of America which mature or which will be subject to redemption,
29 at the option of the holders of them, not later than the respective

1 dates when the proceeds, together with the interest accruing on them,
2 will be required for the purposes intended.

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

12 Sec. 45.96.100. TAX EXEMPTION. All property of the fund is public
13 property devoted to an essential public and governmental function and
14 purpose and is exempt from all taxes of the state or a political sub-
15 division of the state. All bonds issued under this chapter are issued
16 by a body corporate and public of this state and for an essential public
17 and governmental purpose, and the bond and the interest and income on
18 and from the bonds and all income of the fund are exempt from taxation
19 except for transfer, inheritance and estate taxes.

20 Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee may
21 sell bonds at public or private sale until July 1, 1984. After July 1
22 1984, the state bond committee may sell bonds only at public sale.

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

1 Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of
2 securing obligations of the fund, a special account within the general
3 fund called the allocated reserve account is established. One-half of
4 the income from the Alaska permanent fund established in AS 37.13.010 is
5 allocated to the account until the state bond committee determines this
6 allocation is no longer necessary. Other money may be appropriated to
7 the account. The amounts necessary to fund the capital reserve account
8 established under AS 45.96.140, the fire insurance and liability reserve
9 account under AS 45.96.160, and the loss reserve account under AS 45.-
10 96.150 are allocated to those accounts from the allocated reserve
11 account. All other expenditures from the allocated reserve account
12 shall be in accordance with annual appropriations. After the allocation
13 of the income from the permanent fund is terminated or after July 30,
14 1990, whichever occurs first, the one-half allocated to this account
15 shall be paid to the general fund and be available for appropriation.

16 Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose
17 of securing obligations of the fund, a special account within the
18 general fund called the unallocated reserve account is established.
19 The unallocated reserve account consists of any amounts in excess of
20 \$125,000,000 remaining in the general fund at the end of a fiscal year
21 commencing after June 30, 1979 which have not been obligated.

22 (b) The legislature may, by appropriation, fund the allocated
23 reserve account created in AS 45.96.120 from funds in the unallocated
24 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 speci-
13 account called the capital reserve account. The commissioner of revenue
14 shall pay into the capital reserve account from the allocated reserve
15 account upon establishment an amount equal to five per cent of the
16 principal amount of the obligations issued and sold and upon subsequent
17 sales, if any, of obligations of the issue secured, an additional amount
18 equal to five per cent of the principal amount of the obligations sold.
19 At the end of each fiscal year the commissioner of revenue shall with-
20 draw from each capital reserve account and pay to the allocated reserve
21 account any amount in the capital reserve account in excess of five per
22 cent of the remaining principal balance of the obligations secured or,
23 if the amount in the account is less than five per cent of the remain-
24 ing principal balance of the obligations secured, pay into the account from
25 the allocated reserve account the amount necessary to bring the reserve
26 to five per cent. All money held in a capital reserve account may be
27 used as required, when money is not available from the principal and
28 interest account, solely for (1) the payment of the principal of oblig-
29 tions, (2) the purchase or redemption of obligations, (3) the payment of

1 interest on obligations or (4) the payment of any redemption premium
2 required to be paid when those obligations are redeemed before maturity.
3 Income or interest earned by a capital reserve account shall be paid to
4 the allocated reserve account established by AS 45.96.120. Any amount
5 remaining in a capital reserve account when the issue the account se-
6 cures is fully 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 the loss reserve account from the allocated reserve
11 account an amount equal to five per cent of the estimated total amount
12 of all loans to be made by the fund during the first fiscal year of
13 operation. At the first of the succeeding fiscal year and each fiscal
14 year thereafter, the commissioner shall pay into the loss reserve
15 account from the allocated reserve account the amount necessary to bring
16 the balance of the loss reserve account to five per cent of the total
17 amount of loans projected to be outstanding during 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 the loss reserve account from the allocated
21 reserve account the amount needed to bring the balance of the loss
22 reserve account to five per cent of 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 the loss reserve account exceeds
29 five per cent of the remaining principal balance of the total amount of

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

1 sion 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 AS 45.96.180(b) and
26 45.96.240(b) and including comments and suggestions the committee deter-
27 mines to be of interest to the legislature relating to the administra-
28 tion of the loan program. Other reports shall be made as prescribed by
29 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
4 necessary which shall be headed by district directors. The office sha
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 AS 45.96.440.
11 The veterans' loan section shall also provide information and assistan
12 to veterans relating to loan applications under this chapter, other
13 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) t
19 division of economic enterprises in the Department of Commerce and
20 Economic Development, (2) the division of collections in the Departme
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 these 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 AS 45.96.220 does not request reevaluation, or if the
27 evaluation committee determines that renegotiation of the existing term
28 and conditions is not feasible or justified, and the loan is not brought
29 current within 30 days after the notification of delinquency is sent,

1 the loan shall be transferred to the loss reserve account and trans-
2 mitted for collection to the division of collections. A monthly report
3 of the status of the collection effort shall be made to the Legislative
4 Budget and Audit Committee. The total principal and interest due shall
5 be transferred from the loss reserve account to the fund upon assignmen
6 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 AS 45.96.370,

14 (1) make or participate in the making of construction loans
15 from the fund to sponsors, developers, and builders of residential
16 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
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 AS 45.96.295 and 45.96.297;

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 AS 45.96.410 and 45.96.420,
4 a loan under (a)(2) of this section may not run longer than 15 years or
5 exceed 90 per cent of the appraised value of the collateral used to
6 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 AS 45.96.270(5) on the basis of the following criteria

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

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

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

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

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

22 Sec. 45.96.295. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under
23 AS 45.96.270(2) shall be secured by a first lien and appropriate
24 security agreements, except that a lien in favor of the state is not
25 required for loans guaranteed fully by the federal government under the
26 Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86
27 Stat. 909), as amended. In the case of a security agreement given to
28 secure a loan made under AS 45.96.270(2) and covering a vessel docu-
29 mented under the laws of the United States and so long as the Ship

1 Mortgage Act of 1920 (46 U.S.C. secs. 911 - 964; 41 Stat. 1000), as
2 amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 842; 39
3 Stat. 728), as amended, remain ambiguous with respect to whether or no
4 a state or state agency qualifies as a citizen of the United States for
5 purposes of those Acts, the first lien requirement of this section may
6 be satisfied by the recordation and endorsement of a first preferred
7 ship mortgage under the Ship Mortgage Act of 1920, and by perfection of
8 a security interest under the Uniform Commercial Code - Secured Trans-
9 actions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of
10 Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the
11 department of the interest in a vessel documented under the laws of the
12 United States. In the case of a security agreement given to secure a
13 loan made under AS 45.96.270(2) and covering a vessel documented under
14 the laws of the United States, the first lien requirement of this sec-
15 tion may also be satisfied by use of a trust deed and bond issue under
16 it, if the trustee is a citizen of the United States and obtains a first
17 preferred ship mortgage on the vessel under the Ship Mortgage Act of
18 1920, and the approval of the Secretary of Commerce is obtained under
19 U.S.C. secs. 839 and 961 for the transfer of the bond or bonds to the
20 department if the trustee is not a trustee approved by the Secretary of
21 Commerce under 46 U.S.C. secs. 808, 835 and 961.

22 Sec. 45.96.297. LOANS FOR PURCHASE OF LIMITED ENTRY PERMITS. (a)
23 Loans under AS 45.96.270(2) for the purchase of a limited entry permit
24 may be made only upon certification by the Alaska Commercial Fisheries
25 Entry Commission (AS 16.43.020) that the fisherman is a person who
26 qualifies as a transferee for the permit under AS 16.43 and the regula-
27 tions adopted by the commission.

28 (b) Upon approval by the director of the division of Alaska loan
29 programs, the permit to be purchased may be pledged as security for a

1 loan under (a) of this section, if

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

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

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

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

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

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

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

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

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

1 nonprofit corporations shall be made through purchase by the fund of
2 revenue bonds issued on behalf of the corporation by the municipality
3 which the project to be financed by the loan is constructed. If the
4 loan to a nonprofit corporation is for construction outside a munici-
5 pality, the revenue bonds to be purchased by the fund shall be issued
6 the state bond committee on behalf of the nonprofit corporation. The
7 cost of a loan made under this subsection shall be the same as the cost
8 of borrowing to the fund. Loans made under this subsection may not
9 exceed \$5,000,000 and are subject to the following conditions:

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

14 (2) The bonds shall be prepared by the municipality's attorney
15 ney, approved by the attorney general and need not be in definitive
16 form.

17 (3) The bonds shall be for a term commensurate with purpose
18 but in no event for more than 30 years average life.

19 (b) The director of the division of Alaska loan programs shall
20 submit a bid for all general obligation bonds offered on a competitive
21 basis by a home rule borough or city or general law borough or city of
22 any class incorporated under the laws of the state if the borough or
23 city provides its bid form to the director at least 10 days before the
24 opening of the bid. The request for bids and the bid proposal shall
25 provide for issuing all or a portion of the bonds based upon the best
26 combination of bids. The bid shall be determined on the basis of the
27 Daily Bond Buyer 20 bond average as follows:

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

1 (A) 100 points under the average for the first five
2 years maturity;

3 (B) 75 Points under the average for the next five year
4 maturity;

5 (C) 50 points under the average for the next five year
6 maturity;

7 (D) 25 points under the average for the next five years
8 maturity;

9 (E) 0 points under the average for the next five years
10 maturity;

11 (F) 25 points above the average for the next five years
12 maturity.

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

15 (A) 50 points under the average for the first five year
16 maturity;

17 (B) 25 points under the average for the next five years
18 maturity;

19 (C) 0 points under the average for the next five years
20 maturity;

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

23 (E) 50 points above the average for the next five years
24 maturity;

25 (F) 75 points above the average for the next five years
26 maturity.

27 (c) The director of the division of Alaska loan programs shall
28 submit a bid for all revenue bonds offered on a competitive basis by a
29 home rule borough or city or general law borough or city of any class or

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

10 (1) 50 points under the average for the first five years
11 maturity;

12 (2) 25 points under the average for the next five years
13 maturity;

14 (3) 0 points under the average for the next five years
15 maturity;

16 (4) 25 points above the average for the next five years
17 maturity;

18 (5) 50 points above the average for the next five years
19 maturity;

20 (6) 75 points above the average for the next five years
21 maturity;

22 (d) A nonprofit corporation is eligible for a loan under this
23 section if

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

26 (2) it is a public corporation or other municipal instru-
27 mentality under AS 29.59.010; or

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

29 (e) The major part of the proceeds of any bond issue purchased by

1 the fund under this section shall be used for purposes which are tax
2 exempt under federal law and regulation in effect at the time the bonds
3 are issued.

4 (f) The limitations in AS 45.96.400 - 45.96.430 do not apply to
5 loans or purchases made under this section.

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

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

23 Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the
24 purpose of securing each tax exempt bond issue of municipalities of the
25 state and those bonds on behalf of nonprofit corporations guaranteed or
26 issued under this chapter there is established a special account called
27 the municipal bond capital reserve account. The commissioner of revenue
28 shall pay into that account from the unallocated reserve account upon
29 establishment an amount equal to five per cent of the obligations issued

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

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

26 (b) A loan may be made under this section only if upon payment of
27 the loan the project financed by the loan will be the property of

28 (1) the municipality in which the activity is conducted,
29 unless the municipality has provided otherwise by a resolution adopted

1 before approval of the loan; or

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

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

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

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

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

22 Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition
23 to costs directly related to a project, the sum total of all costs of
24 financing and carrying out a project are eligible for bonding under AS
25 45.96.300 - 45.96.330. These include, but are not limited to, the costs
26 of all necessary studies, surveys, plans and specifications, architec-
27 tural, engineering or other special services, acquisition of real pro-
28 perty, site preparation and development, purchase, construction,
29 reconstruction and improvement of real property and the acquisition of

1 machinery and equipment as may be necessary in connection with a pro-
2 ject; an allocable portion of the administrative and operating expense
3 of the issuer; the cost of financing the project, including interest on
4 bonds issued to finance the project; and the cost of other items, in-
5 cluding any indemnity and surety bonds and premiums on insurance, legal
6 fees, fees and expenses of trustees, depositories, financial advisors,
7 and paying agents for the bonds issued as the issuer considers neces-
8 sary.

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

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

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

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

28 (e) The repayment period for student loans is 10 years. Unless
29 deferment of payments has been granted under (g) of this section, re-

1 payment shall commence when the student terminates his studies. In cas
2 of hardship, the Alaska Loan Programs Evaluation Committee may extend
3 repayment of a loan for an additional period of up to five years.

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

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

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

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

14 (3) performance by the student of military or required alter
15 native service; or

16 (4) 50 per cent or greater disability of the student, as
17 certified by competent medical authority.

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

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

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

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

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

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

10 Sec. 45.96.370. ELIGIBILITY. In order to be eligible for a loan
11 under this chapter, other than a loan made under AS 45.96.350, a person
12 must have been a resident of the state for at least five years on the
13 date of application for the loan and must be 18 years of age or older.
14 Except for loans made under AS 45.96.330, a corporation is eligible for
15 a loan if more than 60 per cent of its shareholders have been residents
16 of the state for at least five years on the date of the application for
17 the loan, the chief executive officer and all members of the governing
18 board of the corporation have been residents of the state for at least
19 five years on the date of application for the loan, and the chief execu-
20 tive officer and members of the governing board assume full individual
21 liability for repayment of the loan. A loan to a corporation is immedi-
22 ately due and payable if it ceases to meet these eligibility require-
23 ments. An individual is ineligible for a loan under this chapter if an
24 earlier loan to the individual from the state or an agency of the state
25 has been discharged in bankruptcy unless the defaulted loan has been
26 repaid in full and 10 years have elapsed from the date of repayment.

27 Sec. 45.96.380. MAXIMUM LOAN AMOUNTS. (a) Loans made under the
28 authority of AS 45.96.260 for the purchase or construction of residen-
29 tial housing may not exceed: (1) \$90,000 for a single family dwelling;

1 (2) \$130,000 for a duplex; (3) \$170,000 for a triplex; (4) \$210,000 for
2 a fourplex. A loan made for the purchase or construction of residential
3 facilities in excess of four units shall be treated as a commercial
4 building loan subject to the limitations placed on such loans in (b)(1)
5 of this section.

6 (b) Commercial loans made under the authority of AS 45.96.270 may
7 not exceed:

8 (1) \$500,000 per individual for business activities; farm
9 development; agricultural irrigation systems; purchase, construction,
10 renovation, or repair of commercial buildings; fish manufacturing and
11 processing; fishing vessels and gear; logging operations and equipment;
12 timber manufacturing and processing; nonrenewable resource extraction;
13 or any other activity not otherwise specifically provided for in this
14 section;

15 (2) \$350,000 per individual for farm chattel other than for
16 irrigation systems.

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

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

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

26 (d) Educational loans made under the authority of AS 45.96.350 may
27 not exceed:

28 (1) \$4,000 per individual per year for undergraduate studies;

29 (2) \$8,000 per individual per year for graduate studies;

1 (3) \$4,000 per individual per year for vocational studies;

2 (4) \$4,000 per individual per year for work studies.

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

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

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

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

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

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

21 (f) The maximum loan amounts established in (a) - (d) of this
22 section shall increase in proportion to increases in the consumer price
23 index for Anchorage. The consumer price index for Anchorage for July 1,
24 1979 shall be the basis for determining annual percentage increases in
25 the maximum loan amounts.

26 Sec. 45.96.390. AREA COST DIFFERENTIAL. (a) The maximum loan
27 amounts established in AS 45.96.380(a) and (b) shall be increased by the
28 area cost differential (ACD) determined by the formula $ACD = LCC/BCC \times$
29 $LCCOL/BCOL$ where

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

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

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

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

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

14 Sec. 45.96.400. ADDITIONAL LOAN LIMITATIONS. The maximum loan
15 amounts established in AS 45.96.380(b) and 45.96.390 shall be further
16 limited, based upon the actual technical and managerial experience of
17 the borrower relating to the project or activity for which the loan is
18 made, as follows:

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

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

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

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

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

29 Sec. 45.96.410. VALUE LIMITATION. The provisions of AS 45.96.-

1 380 - 45.96.400 notwithstanding, no loan made under this chapter, unless
2 it is a loan made under the provisions of AS 45.96.330, may exceed

3 (1) 90 per cent of the appraised value of real property
4 pledged as security for the loan;

5 (2) 95 per cent of the appraised value of real property
6 pledged as security for the loan if the loan is for residential housing
7 in an area where Federal Housing Administration mortgage insurance is
8 not available; or

9 (3) 80 per cent of tangible personal property pledged as
10 security for the loan.

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

14 (1) 30 years on a loan secured by real property;

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

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

19 Sec. 45.96.430. RATE OF INTEREST. (a) The rate of interest
20 charged to borrowers under this chapter shall be the amount determined
21 by the commissioner of revenue to be sufficient to cover anticipated
22 cost of money to the fund and, for borrowers other than municipalities,
23 one per cent over the anticipated cost for the loss reserve account plus
24 the amount required for any necessary insurance, but the rate of in-
25 terest charged may be lower if necessary to prevent bonds issued under
26 this Act from being arbitrage bonds under the provisions of and regula-
27 tions under section 103(c) of the Internal Revenue Code of 1954, as
28 amended. The determination of the anticipated cost by the commissioner
29 is conclusive. Rates of interest less than that, except as provided in

1 (b) of this section, may be charged if the renewable resource develop-
2 ment fund or another state fund agrees to pay the difference between
3 cost and the interest rate to be charged or if appropriation for the
4 purpose of paying the difference has been made.

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

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

25 Sec. 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE. (a) The
26 following persons are eligible for special interest rates for veterans
27 established in AS 45.96.430(b);

28 (1) a person who served in the armed forces of the United
29 States for 90 days or more, or whose service was for less than 90 days

1 because of injury or disability incurred in the line of duty, between
2 April 6, 1917 and November 11, 1918, and beginning September 16, 1940 to
3 six months after termination of hostilities involving United States
4 forces in Indo-China, or in a combat zone during any period of armed
5 conflict, who was separated from the armed forces with a discharge other
6 than dishonorable, and

7 (A) who at the time of induction into the service was a
8 resident of the territory or state, who had been a resident for no
9 less than one year immediately before his induction, and who re-
10 turned to the territory or state after discharge as a resident with
11 the intention of remaining in the territory or state; or

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

15 (2) a person who was dependent on a member of the armed
16 forces or a veteran of World War II at the time of the member's or
17 veteran's death if

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

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

25 (C) he died before the official date of the termination
26 of that war; and

27 (D) his discharge was not dishonorable;

28 (3) a person who has served in the Alaska Army National
29 Guard, the Alaska Air National Guard, or the Alaska Naval Militia for

1 not less than six years and who has not received a discharge other than
2 honorable.

3 (b) The provisions of AS 45.96.430(b) are extended to persons who
4 served other than dishonorably on active duty between June 25, 1950, and
5 January 31, 1955, who served other than dishonorably on active duty
6 between August 4, 1964, and six months after termination of hostilities
7 involving forces of the United States, and to dependents of those per-
8 sons, subject to the following provisions and eligibility qualifica-
9 tions:

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

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

19 (3) service in the armed forces of the United States for
20 90 days or more, or service for a lesser period because of injury or
21 disability incurred in line of duty between June 25, 1950, and
22 January 31, 1955, or service in the armed forces of the United States
23 for 90 days or more or service for a lesser period because of injury or
24 disability incurred in line of duty, between August 4, 1964, and July 1,
25 1977.

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

29 Sec. 45.96.450. EMPLOYMENT PRACTICES. (a) In the performance of

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

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

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

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

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

25 Sec. 45.96.470. BANK PARTICIPATION. (a) Loans made under the
26 authority of this chapter may be made in participation with financial
27 institutions. The participating financial institution may act as agent
28 for the division of Alaska loan programs in the initial processing of
29 applications for loans. Fees for such services shall be mutually agreed

1 upon.

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

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

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

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

18 (1) may participate in the implementation stages of that
19 project; or

20 (2) may represent more than one interest in connection with
21 the project.

22 (b) A list of all persons performing preliminary services for a
23 loan applicant shall be furnished to the division of Alaska loan pro-
24 grams as part of the loan application, and a list of all persons with
25 whom the borrower has contractual relations in respect to the project
26 after the application for loan shall be submitted to the division at
27 intervals set by the division of Alaska loan programs.

28 Sec. 45.96.490. DEFINITIONS. For purposes of this chapter, "the
29 fund" and "the loan programs fund" mean the Alaska loans program fund

1 created in AS 45.96.020.

2 * Sec. 7. AS 03.10.050 is repealed and re-enacted to read:

3 Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall
4 administer the loan fund.

5 * Sec. 8. AS 14.40.751(a) is amended to read:

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

14 * Sec. 9. AS 14.40.755(b) is amended to read:

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

19 * Sec. 10. AS 18.100.050 is amended to read:

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

25 * Sec. 11. AS 18.100.070(a) is amended to read:

26 (a) There is created within the Department of Community and Re-
27 gional Affairs a senior citizens housing development fund. Subject to
28 direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the de-
29 partment shall make grants [OR LOANS] to municipalities or to corpora-

1 tions designated as tax exempt under sec. 501(c)(3) and (4) of the
2 Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER AS 18.100.050]
3 for the purpose of developing senior citizen housing: - [A GRANT FROM THE
4 PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

5 * Sec. 12. AS 18.100.070(b) is amended to read:

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

12 * Sec. 13. AS 29.13.100 is amended by adding a new paragraph to read:

13 (39) AS 29.58.290 (industrial development bonds)

14 * Sec. 14. AS 29.58 is amended by adding a new section to read:

15 Sec. 29.58.290. INDUSTRIAL DEVELOPMENT BONDS. No municipality,
16 home rule or otherwise, may issue a revenue bond which is an industrial
17 development bond under the provisions of the Internal Revenue Code of
18 1954 (26 U.S.C. 103).

19 * Sec. 15. AS 37.10.050 is amended to read:

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

27 (b) Money collected for the state shall be deposited by the col-
28 lector in the nearest bank to the account of the division of treasury
29 [DEPARTMENT OF REVENUE] when the division of treasury [DEPARTMENT OF

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26 Department of Revenue at least once each month.

27 (b) Money collected for the state shall be deposited by the col-
28 lector in the nearest bank to the account of the division of treasury
29 [DEPARTMENT OF REVENUE] when the division of treasury [DEPARTMENT OF

1 REVENUE] directs this to be done.

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

10 * Sec. 16. AS 37.10.070(a) is amended to read:

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

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

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

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

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

25 (5) corporate obligations of prime or equivalent quality, as
26 rated by a nationally recognized rating organization;

27 (6) other securities, including corporate securities;

28 (7) Federal Housing Administration mortgages;

29 (8) Federal Veterans Administration mortgages;

1 (9) loans made under the provisions of the Alaska loan pro-
2 grams fund (AS 45.96) [AS 03.10 AND AS 26.15];

3 (10) conventional residential mortgages if the offering fin-
4 ancial institution retains at least 25 per cent of the mortgage;

5 (11) other secured loans, if the offering financial insti-
6 tution retains at least 33 1/3 per cent of the mortgage;

7 (12) mortgages of the Alaska Rural Rehabilitation Corporation
8 which secure agricultural loans, agricultural business loans and agri-
9 cultural processing loans;

10 (13) bankers acceptances drawn on and accepted by banks with a
11 combined capital and surplus aggregating at least \$200,000,000;

12 (14) repurchase agreements, reverse repurchase agreements, or
13 any trading practice or instrumentalities that may evolve investment
14 management.

15 * Sec. 17. AS 37.10.070(f) is repealed and re-enacted to read:

16 (f) Investment policy shall be formulated by the director of the
17 division of treasury of the Department of Revenue subject to the ap-
18 proval of the commissioner of revenue. In formulating investment policy
19 the director of the division of treasury shall consider maximum income
20 and safety as governed by the prudent-man rule. The investment policy
21 shall be proposed to the legislature during the first 10 days of any
22 regular session. Investment policy only becomes effective 60 days after
23 presentation to the legislature or at the end of that session, whichever
24 is earlier, unless disapproved by a resolution concurred in by a major-
25 ity of the members of each house.

26 * Sec. 18. AS 37.10.070(g) is amended to read:

27 (g) The director of the division of treasury [COMMISSIONER OF
28 REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts
29 for services providing investment advice, custody of securities, and

1 execution of transactions, in or out of Alaska.

2 * Sec. 19. AS 37.10.070(i) is amended to read:

3 (i) The director of the division of treasury [COMMISSIONER] shall
4 purchase notes and mortgages under (a) of this section at a rate con-
5 ducive to develop and benefit Alaska and Alaska residents and this rate
6 may be less than the market rate.

7 * Sec. 20. AS 37.10.070 is amended by adding a new subsection to read:

8 (k) In making investments under (a) of this section, the director
9 of the division of treasury may pool the surplus assets of the state
10 funds but shall maintain separate accounts for each fund.

11 * Sec. 21. AS 37.10.075(a) is amended to read:

12 (a) When the commissioner of revenue determines that there are
13 funds in the state treasury which are not being used for the purposes
14 provided for in AS 37.10.070, he may direct the director of the divi-
15 sion of treasury to deposit the funds [THEY MAY BE DEPOSITED] in finan-
16 cial institutions in the state which offer the highest bid for the
17 state funds. Collateral may be required by the commissioner to secure
18 state deposits provided for under this section.

19 * Sec. 22. AS 39.25.120(2) is amended to read:

20 (2) the directors, division of personnel, division of public
21 health, division of medical assistance, and those other directors of the
22 major divisions of the principal departments of the executive branch as
23 are specifically designated by the governor, except the directors of the
24 division of Alaska loan programs, division of treasury and division of
25 collections are in the classified service and may not be designated as
26 partially exempt;

27 * Sec. 23. AS 41.22.020(a) is amended to read:

28 (a) In addition to uses of fund money authorized in sec. 10 of
29 this chapter, money of the fund shall be utilized to make grants to

1 municipalities, of up to one-half the nonfederal share of costs of pro-
2 jects described in AS 41.22.010 which are initiated by a municipality [,
3 AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES TO MAKE OPTION
4 PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION OF WHICH
5 FEDERAL FUNDS ARE ANTICIPATED].

6 * Sec. 24. AS 41.35.180(5) is repealed and re-enacted to read:

7 (5) consult with local historical district commissions re-
8 garding the establishment of historical districts under AS 29.48.108 -
9 29.48.110 and recommend, if appropriate, the formulation of additional
10 criteria for the designation of historical districts under AS 29.48.-
11 110(b).

12 * Sec. 25. AS 44.21.020 is amended by adding new paragraphs to read:

13 (13) provide accounting services for the permanent fund (AS
14 37.13.010), the Alaska loan programs fund (AS 45.96), the renewable re-
15 sources development fund (AS 37.11), and all other state funds;

16 (14) provide detailed accounting of state loans outstanding and
17 securities held by the state.

18 * Sec. 26. AS 44.25 is amended by adding a new section to read:

19 Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established
20 within the Department of Revenue the division of treasury. The director
21 of the division is in the classified service under AS 39.25 and shall
22 receive an annual salary within range 27 of the salary schedule estab-
23 lished in AS 39.27.011 or within one range below that on which the
24 highest paid deputy commissioner in the Department of Revenue is paid if
25 that range is higher than range 27.

26 (b) In order to qualify for the position of director of the divi-
27 sion, a person must

28 (1) be graduated from an accredited college with major course
29 work in business administration, accounting, finance, banking,

1 economics, or another closely related field;

2 (2) have 10 years of experience in banking or investment
3 management involving review, analysis, purchase and sell recommenda-
4 tions, and responsibility for performance with at least four of the
5 years in a managerial capacity.

6 (c) The director of the division of treasury shall collect, ac-
7 count for, have custody of, invest, and manage all state funds and all
8 revenues of the state except revenues incidental to a program of licen-
9 sing and regulation carried on by another state department, except that
10 the division shall issue fish and game licenses, collect fish and game
11 license revenues, and do all other acts incidental to the performance of
12 these functions.

13 * Sec. 27. AS 44.33.020 is amended by adding a new paragraph to read:

14 (22) administer the Alaska loan programs fund (AS 45.96).

15 * Sec. 28. AS 18.56.110(a) is amended to read:

16 (a) The corporation, by resolution, may issue bonds and bond
17 anticipation notes in order to provide funds to carry out and effectuate
18 its purposes only if the state bond committee finds that the issuance
19 is consistent with the bond program of the Alaska loan programs fund.

20 * Sec. 29. All state agencies, departments, commissions, corporations,
21 divisions or other instrumentalities administering or having authority over
22 or control of a loan program or loan fund affected by secs. 7 - 12, 23 - 24,
23 and 30 of this Act shall cease accepting applications for loans no later than
24 January 1, 1980. The division of Alaska loan programs shall begin to accept
25 applications for loans from the Alaska loan programs fund no later than
26 January 1, 1980.

27 * Sec. 30. The following laws are repealed: AS 03.10.010; 03.10.020(1),
28 (4), and (5); 03.10.030; 03.10.054; AS 14.40.751(c), 14.40.759 - 14.40.771;
29 AS 16.10.300; 16.10.310(a)(1), (4), (5); 16.10.320; AS 18.100.030(1) and (4).

1 18.100.040 - 18.100.060; AS 26.15.010(b) - (d), 26.15.040 - 26.15.060, 26.15.
2 110 - 26.15.160; AS 41.22.020(b) - (c); AS 41.30.010 - 41.30.080; AS 44.33.-
3 020(5), 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260; AS 44.59.140-
4 (7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS 44.60.010,
5 44.60.130(7) - (13), 44.60.160 - 44.60.260, 44.60.310 - 44.60.320; AS 44.61.-
6 010 - 44.61.220; AS 45.86.010 - 45.86.030, 45.86.040(b) - (c), 45.86.050 -
7 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4), 45.90.030;
8 AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040, 45.98.060.

9 * Sec. 31. AS 37.10.065, 37.10.075(b) - (d), 37.10.079; and AS 44.25.-
10 020(2) are repealed.

11 * Sec. 32. Sections 1 - 6, 13 - 22, 25 - 29, and 31 of this Act take
12 effect June 30, 1979. The unobligated general fund surplus as of June 30,
13 1979 in excess of \$125,000,000 shall lapse into a special account in the
14 general fund. Money in the special account may be used only from June 30,
15 1979 to December 31, 1979 for purchase of evidences of indebtedness acquired
16 or to be acquired before December 31, 1979 from state loan programs which
17 were in existence on January 1, 1979. Before January 31, 1980 the governor
18 shall certify to the legislature the balance remaining in the special account
19 and that balance may be appropriated to the principal of the permanent fund
20 established by AS 37.13.010.

21 * Sec. 33. Sections 7 - 12, 23, 24 and 30 of this Act take effect June
22 30, 1980.

23 * Sec. 34. In sec. 5 of this Act, the enactment of AS 37.13.100(d) and
24 (e) has the effect of imposing a jurisdictional limitation on the operation
25 of Appellate Rule 45, Alaska Rules of Court Procedure, in that an appeal
26 under the rule (having to do with appeals from administrative decisions to
27 the superior court) must be brought from the decisions of the commissioner of
28 revenue as to eligibility within 30 days or the court will have no jurisdic-
29 tion to hear it. This is an exercise of the legislature's authority over the

1 jurisdiction of the courts, but because it also effects an implied, narrow
2 amendment to Appellate Rule 45 by imposing this jurisdictional time limit
3 instead of the procedural time limit of the same duration which will continue
4 to apply to other appeals, this section has also been included.

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To: Rep. Hugh Malone

From: Nancy Lord, aide to the House Permanent Fund Committee

Date: Feb. 4, 1980

Re: Senator Hochman's d-2/PF survey

At your request, I have singled out those questions from the d-2/Permanent Fund survey which I consider to be most interesting. Copies of the sheets are attached as well as an editorial from the Anchorage Daily News. Press attention has largely been given to the d-2 aspects rather than to the questions dealing specifically with the state's economic development.

The survey sampled 555 people across the state, in rough proportion to population distribution. Surveys were conducted by phone in urban areas and by personal interview in rural areas.

Q13 asks how the state could alleviate d-2 problems. 283 people thought the state could help. The two top choices were use/distribution of state land (19%) and lobbying (12%). Only 3% mentioned economic help, including appropriation, and 1% mentioned changing the tax structure.

Q29 asks whether the state should use the capital and operating budgets and the Permanent Fund "to invest in projects to offset the negative effects of d-2 restrictions," or just some of the funds. 83% said "use only some" compared to 11% for "use all."

Q30-32 asks respondents to rate three means of "helping Alaskans cope with negative effects of d-2 land restrictions." Of the three choices, the respondents chose "reducing interest rates" first, followed by reducing income taxes and making direct payments to residents.

Q33 asks whether the state has moved fast enough to counter the high interest rate situation. 64% said no, compared to 22% who said yes.

Q34 asks whether "you or others in household now have or now need"" "a small business loan, a mortgage, or similar type loan." 10% now have and 27% now need. In "rural west and north", 33% now have and 7% now need, in marked contrast to the other areas of the state.

Q35 asks for what purpose people currently have loans, and Q36 asks for what purpose people need loans. Most respondents identified some type of home loan as what they needed. No data exists for the rural respondents.

Q37 asks whether the state should "use all its financial tools and powers to reduce the loan interest rate." 85% said the state should.

Q38 asks, of the 85% who agreed with Q37, what the interest rate should be brought down to. From choices ranging from 12% to "lower than 5%", 26% chose 10%, followed by 22% for 9%.

Q44 asks whether the executive and legislative bodies have done as much as they should to reduce interest rates, 67% said no, and 18% yes.

Q45 asks whether you are "in favor of doing whatever is necessary with the Permanent Fund or state budget" to alleviate the effects of d-2. 63% said yes, and 24% no.

These are the most interesting questions related to economic development. Given that the questions are broadly drawn, involve aspects of state financing with which most state residents are not conversant, and were directed to a relatively small sample of Alaskans, the survey results have little real value, other than indicating a concern about the general state of the economy. Pollster Mike Rowan is currently preparing three separate reports drawn from the survey results-- one for the legislature, one for Congress, and one for the public.

REPEALERS -- SB 1 (1980)

The following existing loan funds, authorities, and development corporations are effectively repealed by the current version of SB 1.

- 03.10 Agricultural Revolving Loan Fund
- 16.10 Commercial Fishing Revolving Loan Fund
- 16.10 Fisheries Enhancement Revolving Loan Fund
- 18.26 Alaska Medical Facility Authority
- 18.56 Alaska Housing Finance Corporation
- 18.100 Housing Development Revolving Loan Fund (allows grants only)
- 18.100 Senior Citizens Housing Development Fund (allows grants only)
- 26.15 Veterans Revolving Loan Fund
- 41.22 Outdoor Recreational, Open Space, and Historical Properties Development Fund
- 41.30 Area Redevelopment Revolving Loan Fund
- 44.33 Child Care Facility Revolving Loan Fund
- 44.33 Residential Care Facility Revolving Loan Fund
- 44.55 Alaska Gas Pipeline Financing Authority
- 44.56 Alaska Power Authority
- 44.58 Alaska Municipal Bond Bank Authority
- 44.59 Alaska State Development Corporation
- 44.60 Alaska Small Business Development Corporation
- 44.61 Alaska Industrial Development Corporation
- 45.86 Water Resources Revolving Loan Fund
- 45.88 Alternative Technology and Power Resources Revolving Loan Fund
- 45.90 Tourism Revolving Loan Fund
- 45.95 Small Business Revolving Loan Fund
- 45.98 Historical District Revolving Loan Fund

Existing funds and corporations which are not repealed by SB 1 are:

- 14.40 Scholarship Revolving Loan Fund (apparently an oversight)
- 14.40 Memorial Scholarship Revolving Loan Fund (apparent oversight)
- 44.47 Temperate Social Activities Revolving Loan Fund
- 44.56 Power Project Revolving Fund (an oversight?)
- 44.19 Disaster Relief Fund
- 37.11 Alaska Economic Disaster Impact Fund
- 37.12 Alaska Renewable Resources Corporation
- 44.54 Commercial Fishing and Agriculture Bank

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|---|---|---|
| <p>1) Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;</p> <p>2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;</p> <p>3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law; bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska Law;</p> <p>4) notes issued by Farmer's Home Administration</p> <p>5) corporate investment-grade securities; corporate obligations of prime or equivalent quality, as rated by a nationally recognized rating organization; other securities, including corporate securities;</p> <p>6) banker's acceptance drawn on and accepted by United States banks which have a combined capital surplus aggregating at least \$100,000,000;</p> <p>7) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;</p> <p>8) deposits of federally insured savings</p> | <p>1) Obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;</p> <p>2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;</p> <p>3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and which are secured as to the payment of principal and interest in accordance with Alaska law and for which a generally recognized secondary market exists;</p> <p>4)</p> <p>5) short-term corporate promissory notes of the highest rating assigned by a nationally recognized rating service; corporate debt securities which are rated AA or better by a nationally recognized rating service;</p> <p>6) bankers' acceptance drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least \$200,000,000</p> <p>7) repurchase agreements, the securities underlying the agreements being any of the items in (1) - (5) of this subsection;</p> | <p>1) Obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;</p> <p>2) Obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;</p> <p>3) bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska law;</p> <p>4)</p> <p>5) corporate obligations rated "A" or better by a nationally recognized rating service or of equivalent quality;</p> <p>6) bankers acceptances drawn on and accepted by banks with a combined capital and surplus aggregating at least \$200,000,000.</p> |
|---|---|---|

37.10.065

SB 161

SB 1

8) and loan association's deposits exclusive of federal, state, and municipal deposits;	8)	8)
9) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.	9)	9)
10) Federal Veterans Administration mortgages;	10) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Administration;	10) Federal Veterans Administration mortgages;
	11) the guaranteed portion of Federal Small Business Administration Loans;	11)
	12) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;	12)
	13) all guaranteed portion of Farmer's Home Administration loans.	13) notes issued by the Farmers Home Administration;
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#18127

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Date: Feb. 4, 1980

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Notes
Does Rowan's narrative
show Congress the way
Should the legislature
review this before it is
assessed that it reflects
any position by Regs?
★

Anchorage Daily News

Winner, 1976 Pulitzer Prize Gold Medal for Public Service

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Editor and Publisher

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Latest d-2 poll says very little

Ask Alaskans what good will come of "the d-2 land restrictions" and most of them will tell you "None." So what?

The question is so general and so pejoratively worded that little of value is likely to come from any of the answers. Yet the Alaska Legislature spent \$34,000 on the poll by Michael Rowan and then listened to the pollster describe the results in terms that can only undermine efforts to reach a reasonable land legislation compromise in Washington. The whole effort seems pointless and ill-advised to us.

Without specifying which of numerous d-2 settlements is at issue, the poll can't provide reliable results. Are we asking about the Udall bill, the Senate Energy Committee compromise, or the Antiquities Act? The differences are real and the potential impacts radically different. No such distinction, however, is made in the Rowan poll.

It may be convincingly argued that few citizens understand the specific differences between the d-2 proposals, but that hardly justifies the overly broad phrasing of the questions. If most people don't understand enough to judge between versions of the land settlement, why go through the motions of an expensive poll to reach a predictable, uninformed response?

It also seems unfair to us for the pollsters to have asked about "d-2 restrictions." One man's restriction may be another's careful protection. Whatever the definition, the use of that term seems designed to provoke negative feelings.

Under a contract with Sen. George Hohman, D-Bethel, the Rowan poll is to be compiled into a narrative report and presented to the Congress. It seems clear to us that its broad-brush approach is unlikely to prove convincing to that audience. About the only effect we're willing to predict is that it will add to the confusion already far too thick over this issue. It could also have the effect — although we hope not — of further undermining the delicate process of compromise that remains Alaska's best hope for a livable legislative resolution of the federal land battle.

Q.13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
 ** COULD HELP **

	LOCATION																			RESIDENCE		
	SEX			AGE			ANCH- ORAGE DOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU AND NORTH	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.		
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45																
TOTAL RESPONDENTS	283	143	140	97	112	73	116	40	46	47	34	180	34	7	12	36	37	130	57	59		
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
INFORM THE OTHER STATES/ REPRESENT ALASKA TO OTHER STATES	7	5	3	2	4	2	4	-	1	2	-	6	1	-	-	-	-	3	2	3		
	2.5	3.5	2.1	2.1	3.6	2.7	3.4	-	2.2	4.3	-	3.3	2.9	-	-	-	-	2.3	3.5	5.1		
REDUCE THE AMOUNT OF LAND	7	4	3	1	4	2	2	2	1	-	1	5	2	-	-	-	2	3	1	1		
	2.5	2.8	2.1	1.0	3.6	2.7	1.7	5.0	2.2	-	2.9	2.8	5.9	-	-	-	5.4	2.3	1.8	1.7		
OPEN UP THE LAND/MAKE LAND ACCESSIBLE	7	5	2	3	1	3	3	1	1	1	-	6	1	-	-	-	2	2	2	1		
	2.5	3.5	1.4	3.1	.9	4.1	2.6	2.5	2.2	2.1	-	3.3	2.9	-	-	-	5.4	1.5	3.5	1.7		
DISTRIBUTE LAND TO THE PEOPLE /RESIDENTS /SQUATTERS	6	6	-	5	1	-	2	-	2	-	1	5	-	-	-	-	-	-	2	3		
	2.1	4.2	-	5.2	.9	-	1.7	-	4.3	-	2.9	2.8	-	-	-	-	-	-	3.5	5.1		
HELP PEOPLE FIND JOBS/ CREATE MORE JOBS	6	3	3	3	3	-	2	1	1	1	-	6	-	-	-	-	-	3	1	2		
	2.1	2.1	2.1	3.1	2.7	-	1.7	2.5	2.2	2.1	-	3.3	-	-	-	-	-	2.3	1.8	3.4		
OPEN THE LAND UP FOR HUNTING/ FISHING/ SUBSIS- TANCE HUNTING	4	2	2	1	2	2	-	-	-	2	2	2	2	-	1	-	2	2	-	-		
	1.4	1.4	1.4	1.0	1.8	2.7	-	-	-	4.3	5.9	1.1	5.9	-	8.3	-	5.4	1.5	-	-		

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.13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
 ** COULD HELP **

	LOCATION																			RESIDENCE		
	SEX			AGE			ARCH-ORANGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU AND NORTH	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.		
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45																
TOTAL RESPONDENTS	283	143	140	97	112	73	116	40	46	47	34	180	34	7	12	36	37	130	57	59		
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
THIER LAND USE/DIS-TRIBUTION MENTIONS	15	9	6	7	7	-	8	1	4	1	1	10	4	1	-	-	-	5	5	5		
	5.3	6.3	4.3	7.2	6.3		6.9	2.5	8.7	2.1	2.9	5.6	11.8	14.3				3.8	8.8	8.5		
NEW LEGIS-LATION/ AMENDMENTS /PASS LAWS	14	9	5	8	2	4	7	2	3	1	1	12	1	-	-	1	1	8	4	1		
	4.9	6.3	3.6	8.2	1.8	5.5	6.0	5.0	6.5	2.1	2.9	6.7	2.9			2.8	2.7	6.2	7.0	1.7		
ODDY IN WASHINGTON /FEDERAL GOVERNMENT (UHSP)	10	6	6	2	2	5	2	-	2	5	1	5	-	-	-	3	3	5	-	2		
	3.5	2.8	4.3	2.1	1.8	6.8	1.7		4.3	10.6	2.9	2.8				8.3	8.1	3.8		3.4		
ODDY CONGRESS	9	5	4	1	4	4	2	-	2	4	-	7	-	-	-	1	4	3	2	-		
	3.2	3.5	2.9	1.0	3.6	5.5	1.7		4.3	8.5		3.9				2.8	10.8	2.3	3.5			
USE STATE LAND TO OFF-SET/ ALLEVIATE D-2 RES-TRICCTIONS	9	4	5	-	5	4	2	2	2	3	1	7	1	-	-	1	1	5	2	1		
	3.2	2.8	3.6		4.5	5.5	1.7	5.0	4.3	6.4	2.9	3.9	2.9			2.8	2.7	3.8	3.5	1.7		
ODDY AGAINST IT (UHSP)	8	7	2	1	4	3	5	1	2	-	-	6	1	-	1	1	1	6	1	1		
	2.8	4.9	1.4	1.0	3.6	4.1	4.3	2.5	4.3			3.3	2.9		8.3	2.8	2.7	4.6	1.8	1.7		
DEMAND FEDERAL GOVERNMENT RELEASE STATE LANDS	8	4	4	3	4	1	2	2	1	2	1	3	3	1	-	1	1	3	1	2		
	2.8	2.8	2.9	3.1	3.6	1.4	1.7	5.0	2.2	4.3	2.9	1.7	8.8	14.3		2.8	2.7	2.3	1.8	3.4		

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Q.13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
 ** COULD HELP **

	LOCATION															RESIDENCE				
	SEX			AGE			ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU AND NORTH	RURAL WEST AND	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRE	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45														
TOTAL	283	143	140	97	112	73	116	40	46	47	34	180	34	7	12	36	37	130	57	59
RESPONDENTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
LOBBYING	34	19	15	5	14	15	13	2	8	9	2	23	2	1	2	4	7	19	3	5
	12.0	13.3	10.7	5.2	12.5	20.5	11.2	5.0	17.4	19.1	5.9	12.8	5.9	14.3	16.6	11.1	18.9	14.6	5.3	8.5

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Q.13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
 ** COULD HELP **

	LOCATION																			
	SEX			AGE			LOCATION						RESIDENCE							
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45	ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	283	143	140	97	112	73	116	40	46	47	34	180	34	7	12	36	37	130	57	59
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
THEY SHOULD WORK TOGETHER (UNSP)	6	4	2	2	2	2	3	2	-	-	1	2	-	-	-	2	-	2	2	2
	2.1	2.8	1.4	2.1	1.8	2.7	2.6	5.0			2.9	1.1				5.6		1.5	3.5	3.4
CHANGE TAX STRUCTURE/ HELP THROUGH TAXES/ ALL TAX MENTIONS	3	3	1	2	2	-	2	-	1	-	-	3	-	-	-	-	-	1	-	3
	1.1	2.1	.7	2.1	1.8		1.7		2.2			1.7						.8		5.1
I DON'T CARE ABOUT D-2	2	2	-	-	-	2	2	-	-	-	-	2	-	-	-	-	-	1	-	1
	.7	1.4				2.7	1.7					1.1						.8		1.7
OTHER MENTIONS	38	23	15	8	24	6	17	3	5	8	5	22	9	-	2	5	3	17	11	7
	13.4	16.1	10.7	8.2	21.4	8.2	14.7	7.5	10.9	17.0	14.7	12.2	26.5		16.7	13.9	8.1	13.1	19.3	11.9
NOT MUCH/ THEY CAN'T DO MUCH	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NOT SURE	91	32	58	34	31	25	30	19	13	18	11	54	8	2	2	20	14	44	17	16
	32.2	22.4	41.4	35.1	27.7	34.2	25.9	47.5	28.3	38.3	32.4	30.0	23.5	28.6	16.7	55.6	37.8	33.8	29.8	27.1
** NETS **																				
LAND USE/ DISTRIBU- TION MENTIONS	54	34	20	21	21	12	19	7	12	8	8	35	10	3	1	2	7	20	13	14
	19.1	23.8	14.3	21.6	18.8	16.4	16.4	17.5	26.1	17.0	23.5	19.4	29.4	42.9	8.3	5.6	18.9	15.4	22.8	23.7

(CONTINUED)

13 HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
 ** COULD HELP **

	LOCATION											RESIDENCE								
	SEX		AGE			ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.	
	TOTAL	MALE	FE- MALE	18-29	30-45															OVER 45
TOTAL RESPONDENTS	283	143	140	97	112	73	116	40	46	47	34	180	34	7	12	36	37	130	57	59
FORM THE RESIDENT/	1.1	.7	1.4	1.0	-	2.7	.9	2.5	2.2	-	-	.6	-	14.3	8.3	-	-	2.3	-	-
DELEGATION OF THE RESIDENT																				
CONDITIONS OF SPECIFIC USE/DISTRIBUTION OF LAND FUNDS	1.1	1.4	.7	1.0	.9	1.4	1.7	-	2.2	-	-	1.1	-	-	8.3	-	2.7	1.5	-	-
USE (SOME) LAND FOR PARKS/ DESIGNATE RECREATION AREAS	1.1	2.1	-	1.0	.9	-	.9	-	2.2	-	1	.6	-	-	-	-	-	-	1.8	1.7
HELP RELOCATE PEOPLE/ FIND HOUSING	1.1	.7	1.4	2.1	.9	-	1.7	-	-	-	-	1.7	-	-	-	-	-	1.5	-	1.7

Q.29 SHOULD STATE USE THE CAPITAL BUDGET, THE OPERATING BUDGET & THE PERMANENT FUND TO INVEST IN PROJECTS TO OFFSET THE NEGATIVE EFFECTS OF D-2 LAND RESTRICTIONS, OR SHOULD JUST SOME OF THESE RESERVES OF FUNDS BE USED

	LOCATION															RESIDENCE				
	SEX			AGE			ANCH-ORAGE BOWL	FAIR-BAHKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU AND NORTH	RURAL WEST AND	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45														
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
USE ALL	60	31	29	28	22	10	30	14	3	6	7	36	6	3	2	9	11	22	13	15
	10.8	11.1	10.5	14.7	9.7	7.3	12.7	15.6	3.7	6.5	12.7	10.5	9.1	20.0	9.1	11.8	15.7	8.9	10.3	13.4
USE ONLY SOME	463	230	233	151	193	118	195	71	76	83	38	288	57	12	20	62	55	210	105	93
	83.4	82.4	84.4	79.0	85.0	86.8	82.6	78.9	93.8	89.2	69.1	84.2	86.4	80.0	90.9	81.6	78.6	85.4	83.3	83.0
NOT SURE	32	17	14	12	12	8	12	5	2	4	9	19	3	-	1	5	5	14	9	3
	5.8	6.1	5.1	6.3	5.3	5.9	5.1	5.5	2.5	4.3	16.4	5.6	4.5	4.5	6.6	7.1	5.7	7.1	2.7	2.7

30-32 RATING OF THE FOLLOWING METHODS SUGGESTED AS A MEANS FOR HELPING ALASKANS COPE WITH NEGATIVE EFFECTS OF D-2 LAND RESTRICTIONS
REDUCING THE LOAN-INTEREST-RATES FOR COMMERCIAL AND PERSONAL LOANS FOR RESIDENTS

	LOCATION											RESIDENCE								
	SEX			AGE			ANCH-ORANGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45														
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
...	33	18	16	6	17	10	15	4	8	3	4	21	2	1	2	5	6	14	8	4
...	5.9	6.5	5.8	3.1	7.5	7.4	6.3	4.4	9.9	3.2	7.3	6.1	3.0	6.7	9.1	6.6	8.6	5.7	6.3	3.6
...	19	13	6	8	11	1	11	1	-	3	5	15	1	1	-	1	3	9	4	4
...	3.4	4.7	2.2	4.2	4.8	.7	4.7	1.1		3.2	9.1	4.4	1.5	6.7		1.3	4.3	3.7	3.2	3.6
...	82	41	41	26	30	26	48	6	11	7	10	54	10	2	4	9	11	30	20	21
...	14.8	14.7	14.8	13.6	13.2	19.1	20.3	6.7	13.6	7.5	18.2	15.8	15.2	13.3	18.2	11.9	15.7	12.2	15.9	18.8
...	112	50	62	39	45	27	42	26	18	15	11	70	14	6	3	13	8	49	29	25
...	20.2	17.9	22.5	20.4	19.8	19.9	17.8	28.9	22.2	16.1	20.0	20.5	21.2	40.0	13.6	17.1	11.4	19.9	23.0	22.3
...	300	151	149	110	122	68	117	52	44	63	24	179	38	5	13	46	40	140	64	57
...	54.1	54.1	54.0	57.6	53.7	50.0	49.6	57.8	54.3	67.8	43.6	52.3	57.6	33.3	59.1	60.5	57.1	56.9	50.8	50.9
NOT SURE	8	7	2	1	4	4	3	1	-	2	2	3	-	-	-	2	3	3	2	-
...	1.4	2.5	.7	.5	1.8	2.9	1.3	1.1		2.2	3.6	.9				2.6	4.3	1.2	1.6	
MEAN...	4.15	4.11	4.18	4.26	4.08	4.08	4.01	4.36	4.11	4.45	3.85	4.09	4.31	3.87	4.14	4.27	4.07	4.21	4.10	4.14
STD. DEV.	1.16	1.21	1.11	1.06	1.25	1.17	1.21	.98	1.25	.99	1.28	1.20	.98	1.13	1.24	1.15	1.32	1.14	1.15	1.08
STD. ERR.	.05	.07	.06	.07	.08	.10	.07	.10	.13	.10	.17	.06	.12	.29	.26	.13	.16	.07	.10	.10

= LEAST FAVORABLE 5 = MOST FAVORABLE

30-32 RATING OF THE FOLLOWING METHODS SUGGESTED AS A MEANS FOR HELPING ALASKANS COPE WITH NEGATIVE EFFECTS OF D-2 LAND RESTRICTIONS
REDUCING OR ELIMINATING THE STATE PERSONAL INCOME TAX

	LOCATION											RESIDENCE								
	SEX			AGE			ANCH-DRAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER		LESS THAN 5 YRS.
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45												10	5-10	
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
...	77	45	32	20	34	23	32	9	16	9	11	53	5	3	3	7	11	37	14	16
...	13.9	16.1	11.6	10.5	15.0	16.9	13.6	10.0	19.7	9.7	20.0	15.5	7.6	20.0	13.6	9.2	15.7	15.0	11.1	14.3
...	46	21	24	17	19	10	19	4	8	10	5	31	8	-	1	4	4	15	12	14
...	8.3	7.5	8.7	8.9	8.4	7.4	8.1	4.5	9.9	10.7	9.1	9.1	12.1	4.6	5.3	5.7	6.1	9.5	12.5	
...	103	51	52	45	39	20	37	19	20	17	10	67	14	4	4	7	17	43	22	21
...	18.6	18.3	18.8	23.5	17.2	14.7	15.7	21.1	24.7	18.3	18.2	19.6	21.2	26.7	18.2	9.2	24.3	17.5	17.5	18.8
...	84	41	43	30	33	20	38	13	12	14	7	50	17	1	1	11	7	38	18	20
...	15.1	14.7	15.6	15.7	14.5	14.7	16.1	14.4	14.8	15.0	12.7	14.6	25.8	6.7	4.5	14.5	10.0	15.4	14.3	17.8
...	235	116	119	76	98	61	106	42	25	42	19	137	22	7	13	42	28	111	57	39
...	42.3	41.6	43.1	39.8	43.2	44.9	44.9	46.7	30.9	45.2	34.5	40.0	33.3	46.6	59.1	55.3	40.0	45.1	45.2	34.8
NOT SURE	10	4	7	3	4	3	3	3	-	1	3	4	1	-	-	4	3	3	3	2
...	1.8	1.4	2.5	1.6	1.7	2.2	1.3	3.3		1.1	5.5	1.2	1.5			5.3	4.3	1.2	2.4	1.8
MEAN...	3.65	3.59	3.71	3.66	3.64	3.64	3.72	3.86	3.27	3.76	3.35	3.55	3.65	3.60	3.91	4.08	3.55	3.70	3.75	3.47
STD. DEV.	1.45	1.49	1.41	1.37	1.47	1.52	1.45	1.34	1.48	1.38	1.54	1.48	1.26	1.54	1.47	1.35	1.48	1.46	1.40	1.45
STD. ERR.	.06	.09	.08	.10	.09	.13	.09	.14	.16	.14	.21	.08	.15	.39	.31	.16	.18	.09	.12	.13

= LEAST FAVORABLE 5 = MOST FAVORABLE

Q.30-32 RATING OF THE FOLLOWING METHODS SUGGESTED AS A MEANS FOR HELPING ALASKANS COPE WITH NEGATIVE EFFECTS OF D-2 LAND RESTRICTIONS
 MAKING PAYMENTS DIRECTLY TO RESIDENTS IN TERMS OF DIVIDENDS OR OTHER PAYMENTS

	LOCATION													RESIDENCE						
	SEX		AGE			ANCH-ORANGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.	
	TOTAL	MALE	FE-MALE	18-29	30-45															OVER 45
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
1...	143	88	55	32	70	41	62	22	24	22	13	95	16	5	4	14	14	69	42	18
	25.8	31.5	19.9	16.8	30.8	30.2	26.3	24.5	29.6	23.7	23.6	27.8	24.3	33.3	18.2	18.4	20.0	28.0	33.3	16.1
2...	83	42	40	30	30	23	39	13	12	14	5	57	11	3	4	5	7	39	16	20
	15.0	15.1	14.5	15.7	13.2	16.9	16.5	14.4	14.8	15.0	9.1	16.7	16.7	20.0	18.2	6.6	10.0	15.9	12.7	17.9
3...	117	50	67	45	50	22	53	14	18	23	9	69	15	3	5	17	15	56	23	23
	21.1	17.9	24.3	23.6	22.0	16.2	22.5	15.6	22.2	24.7	16.4	20.2	22.7	20.0	22.7	22.4	21.4	22.8	18.3	20.5
4...	78	35	43	37	30	11	32	12	11	13	10	46	9	2	2	14	11	25	19	23
	14.1	12.5	15.6	19.4	13.2	8.1	13.5	13.3	13.6	14.0	18.2	13.4	13.6	13.3	9.1	18.4	15.7	10.2	15.1	20.5
5...	121	59	62	42	43	35	43	28	16	20	14	69	13	3	7	22	20	54	23	23
	21.8	21.1	22.5	22.0	18.9	25.7	18.2	31.1	19.8	21.5	25.5	20.2	19.7	20.0	31.8	28.9	28.6	22.0	18.3	20.5
NOT SURE	14	6	8	4	6	4	7	1	-	1	5	6	2	-	1	4	4	2	4	4
	2.5	2.2	2.9	2.1	2.6	2.9	3.0	1.1		1.1	9.1	1.7	3.0		4.5	5.3	5.7	.8	3.2	3.6
MEAN...	2.91	2.76	3.06	3.15	2.76	2.82	2.80	3.12	2.79	2.95	3.14	2.81	2.88	2.69	3.18	3.35	3.24	2.82	2.72	3.12
STD. DEV.	1.49	1.54	1.44	1.37	1.49	1.58	1.45	1.59	1.48	1.44	1.54	1.49	1.44	1.48	1.50	1.45	1.49	1.49	1.51	1.38
STD. ERR.	.06	.09	.08	.10	.10	.13	.09	.16	.16	.15	.21	.08	.18	.37	.31	.17	.18	.09	.13	.13

1 = LEAST FAVORABLE 5 = MOST FAVORABLE

HOW COULD STATE LEGISLATURE HELP ALLEVIATE PROBLEMS
 ** COULD HELP **

	LOCATION											RESIDENCE								
	SEX		AGE			ANCHORAGE DOWL	FAIRBANKS	SOUTH EASTERN COMMUNITY	RAIL-DELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STUDENT	RETIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.	
	TOTAL	MALE	FE-MALE	18-29	30-45															OVER 45
ALL RESPONDENTS	283	143	140	97	112	73	116	40	46	47	34	180	34	7	12	36	37	130	57	59
WHAT PEOPLE WANT PRESS RELEASE OF THE PEOPLE	23	8	16	7	10	6	8	5	2	2	6	11	4	1	2	5	4	6	6	8
FOR ACTIVE EMPLOYMENT/GETTING/FIRM AND	14	8	6	7	4	3	9	1	1	2	1	10	3	1	-	-	-	9	2	3
FOR MORE PEOPLE/EDUCATE ABOUT IT	9	4	4	4	4	1	7	1	-	-	1	7	1	-	-	1	2	4	1	2
FOR ECONOMICALLY/PROPRIATE MONEY (HSP)	8	4	4	1	4	3	2	2	3	1	-	7	-	-	1	-	-	6	-	2
FOR HOSE/OVER-RIDE/DON'T PASS	7	5	3	2	3	2	3	-	1	2	1	5	-	-	2	-	1	4	-	3
FOR DISCUSSION/STUDY/OPEN UP THE ISSUE	6	4	2	2	3	1	4	-	2	-	-	4	2	-	-	-	-	2	2	2

(CONTINUED)

33 HAS STATE MOVED FAST ENOUGH TO COUNTER THE HIGH INTEREST RATE SITUATION INVOLVED IN GETTING A SMALL BUSINESS LOAN, A MORTGAGE OR SIMILAR TYPE LOAN

	LOCATION																			RESIDENCE		
	SEX			AGE			LOCATION													RESIDENCE		
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45	ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU AND NORTH	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.		
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112		
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
YES	122	65	57	32	57	33	58	20	15	22	7	80	12	3	5	15	15	52	34	21		
	22.0	23.3	20.7	16.8	25.1	24.3	24.6	22.2	18.5	23.7	12.7	23.4	18.2	20.0	22.7	19.7	21.4	21.1	27.0	18.7		
NO	356	177	179	129	141	86	155	58	57	59	27	223	39	11	14	50	42	164	76	74		
	64.1	63.4	64.8	67.5	62.1	63.2	65.7	64.5	70.4	63.4	49.1	65.2	59.1	73.3	63.7	65.8	60.0	66.7	60.3	66.1		
NOT SURE	76	36	40	30	30	17	23	12	9	12	20	40	16	2	3	11	13	30	17	17		
	13.7	12.9	14.5	15.7	13.2	12.5	9.7	13.3	11.1	12.9	36.4	11.7	24.2	13.3	13.6	14.5	18.6	12.2	13.5	15.2		

Q.34 DO YOU OR OTHERS IN HOUSEHOLD NOW HAVE OR NOW NEED SUCH A LOAN

	LOCATION																			
	SEX			AGE			RESIDENCE													
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45	ANCH- ORAGE DOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU AND NORTH	RURAL WEST AND	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NOW HAVE SUCH A LOAN	54	31	23	16	30	7	17	4	10	6	18	38	9	1	1	3	13	18	12	11
	9.7	11.1	8.3	8.4	13.2	5.1	7.2	4.4	12.3	6.5	32.7	11.1	13.7	6.7	4.5	4.0	18.6	7.3	9.5	9.8
NOW NEED SUCH A LOAN	150	82	68	59	57	34	70	26	23	27	4	100	15	3	2	20	16	77	29	29
	27.0	29.4	24.6	30.9	25.1	25.0	29.7	28.9	28.4	29.0	7.3	29.2	22.7	20.0	9.1	26.3	22.9	31.3	23.0	25.9
DO NOT KNOW	343	161	182	110	140	92	146	59	46	60	32	200	41	12	20	52	41	148	83	71
	61.8	57.7	66.0	57.6	61.7	67.6	61.8	65.6	56.8	64.5	58.2	58.5	62.1	80.0	90.9	68.4	58.6	60.2	65.9	63.4
DO NOT SURE	8	6	3	5	1	2	3	1	2	-	2	5	1	-	-	1	1	3	3	1
	1.5	2.2	1.1	2.6	.4	1.5	1.3	1.1	2.5	-	3.6	1.5	1.5	-	-	1.3	1.4	1.2	2.4	.9

35 FOR WHAT PURPOSE DO YOU NOW HAVE A LOAN
 ** NOW HAVE LOAN **

	LOCATION																	RESIDENCE		
	SEX			AGE			ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45														
TOTAL RESPONDENTS	54	31	23	16	30	7	17	4	10	6	18	38	9	1	1	3	13	18	12	11
MORTGAGE/ HOME MORTGAGE LOAN	10	5	5	-	8	2	4	2	2	2	-	8	2	-	-	-	-	5	3	3
	18.5	16.1	21.7		26.7	28.6	23.5	50.0	20.0	33.3		21.1	22.2					27.8	25.0	27.3
HOME (UNSP)	7	4	4	4	3	-	4	-	1	2	-	6	-	-	-	1	1	1	2	4
	13.0	12.9	17.4	25.0	10.0		23.5		10.0	33.3		15.8				33.3	7.7	5.6	16.7	36.4
HOME BUILD- ERS LOAN	3	1	2	-	3	-	-	-	2	1	-	2	1	-	-	-	-	1	1	1
	5.6	3.2	8.7		10.0				20.0	16.7		5.3	11.1					5.6	8.3	9.1
HOME OWNERSHIP/ BUYING HOUSE/HOME	2	2	1	-	2	-	2	-	-	-	-	2	1	-	-	-	-	2	-	1
	3.7	6.5	4.3		6.7		11.8					5.3	11.1					11.1		9.1
HOME IMPRO- VEMENT	2	-	2	-	2	-	2	-	-	-	-	1	-	-	-	1	-	1	1	-
	3.7		8.7		6.7		11.8					2.6				33.3		5.6	8.3	
BUSINESS LOAN (UNSP)	2	1	1	1	1	-	2	-	-	-	-	-	2	-	-	-	-	1	-	1
	3.7	3.2	4.3	6.3	3.3		11.8						22.2					5.6		9.1
SMALL BUSINESS LOAN	2	1	1	1	1	-	2	-	-	-	-	2	-	-	-	-	-	1	1	-
	3.7	3.2	4.3	6.3	3.3		11.8					5.3						5.6	8.3	
COMMERCIAL FINANCING LOAN	2	1	1	1	1	-	-	-	2	-	-	2	-	-	-	-	1	1	-	-
	3.7	3.2	4.3	6.3	3.3				20.0			5.3					7.7	5.6		
COMMERCIAL LOAN VENTURES/ CONSTRUCTION	2	1	1	2	-	-	-	-	2	-	-	2	-	-	-	-	1	1	-	-
	3.7	3.2	4.3	12.5					20.0			5.3					7.7	5.6		

(CONTINUED)

Q.35 FOR WHAT PURPOSE DO YOU NOW HAVE A LOAN
 ** NOW HAVE LOAN **

	LOCATION																			RESIDENCE		
	SEX			AGE			ANCII- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- DELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.		
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45																
TOTAL RESPONDENTS	54	31	23	16	30	7	17	4	10	6	18	38	9	1	1	3	13	18	12	11		
COMMERCIAL BUILDING	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
OTHER BUSINESS LOAN MENTIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
OTHER MENTIONS	3	1	2	-	3	-	2	1	-	-	-	2	-	-	-	-	-	-	2	1		
	5.6	3.2	8.7		10.0		11.8	25.0				5.3							16.7	9.1		
UNASCERTAINED/REFUSED	19	14	5	6	8	4	1	-	-	1	17	11	3	1	1	1	10	5	2	1		
	35.2	45.2	21.7	37.5	26.7	57.1	5.9			16.7	94.4	28.9	33.3	100.0	100.0	33.3	76.9	27.8	16.7	9.1		
** NETS **																						
HOME LOANS	23	11	12	4	17	2	11	2	5	5	-	18	4	-	-	1	1	8	5	8		
	42.6	35.5	52.2	25.0	56.7	28.6	64.7	50.0	50.0	83.3		47.4	44.4			33.3	7.7	44.4	41.7	72.7		
BUSINESS LOANS	7	4	4	5	3	-	3	-	4	-	-	6	2	-	-	-	2	4	1	1		
	13.0	12.9	17.4	31.3	10.0		17.6		40.0			15.8	22.2				15.4	22.2	8.3	9.1		

Q.35 FOR WHAT PURPOSE DO YOU NOW HAVE A LOAN
 ** NOW HAVE LOAN **

	LOCATION																			RESIDENCE		
	TOTAL	SEX		AGE			ANCH-ORAGE BOWL	FAIR-DANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-DELT, WEST NATSU AND ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.		
		MALE	FE-MALE	18-29	30-45	OVER 45																
TOTAL RESPONDENTS	54	31	23	16	30	7	17	4	10	6	18	38	9	1	1	3	13	18	12	11		
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
BUY PROPERTY/ LAND	2	1	1	1	-	1	2	-	-	-	-	2	-	-	-	-	-	-	2	-		
	3.7	3.2	4.3	6.3	-	14.3	11.8	-	-	-	-	5.3	-	-	-	-	-	-	16.7	-		
REAL ESTATE /LAND DEVELOP-MENT	1	-	1	-	-	1	-	1	-	-	-	-	-	-	-	1	-	-	1	-		
	1.9	-	4.3	-	-	14.3	-	25.0	-	-	-	-	-	-	-	33.3	-	-	8.3	-		
COLLEGE/ EDUCATION LOAN	1	1	-	1	-	-	-	-	1	-	-	1	-	-	-	-	-	1	-	-		
	1.9	3.2	-	6.3	-	-	-	-	10.0	-	-	2.6	-	-	-	-	-	5.6	-	-		
TO BUY A CAR	1	-	1	-	1	-	1	-	-	-	-	1	-	-	-	-	-	1	-	-		
	1.9	-	4.3	-	3.3	-	5.9	-	-	-	-	2.6	-	-	-	-	-	5.6	-	-		
OTHER HOME LOAN MENTIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
MOBILE HOME	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
OPENING/ STARTING A BUSINESS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
OPENING/ STARTING A SMALL BUSINESS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		

(CONTINUED)

Q.36 FOR WHAT PURPOSE DO YOU NOW NEED A LOAN
 ** NOW NEED LOAN **

LOCATION

RESIDENCE

	SEX		AGE			LOCATION						RESIDENCE								
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45	ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	150	82	68	59	57	34	70	26	23	27	4	100	15	3	2	20	16	77	29	29
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
HOME (UNSP)	24	10	14	14	8	2	12	4	3	4	-	13	3	-	-	4	3	11	6	4
	16.0	12.2	20.6	23.7	14.0	5.9	17.1	15.4	13.0	14.8		13.0	20.0			20.0	18.8	14.3	20.7	13.8
HOME OWNERSHIP BUYING HOUSE/HOME	18	4	14	6	8	4	9	7	1	1	-	10	2	2	-	3	2	9	3	4
	12.0	4.9	20.6	10.2	14.0	11.8	12.9	26.9	4.3	3.7		10.0	13.3	66.7		15.0	12.5	11.7	10.3	13.8
HOME BUILDERS LOAN	16	9	7	5	4	7	5	3	6	2	-	12	1	-	-	1	3	5	4	4
	10.7	11.0	10.3	8.5	7.0	20.6	7.1	11.5	26.1	7.4		12.0	6.7			5.0	18.8	6.5	13.8	13.8
OTHER BUSINESS LOAN MENTIONS	12	7	5	3	4	5	6	1	2	3	-	10	-	-	-	2	-	11	-	1
	8.0	8.5	7.4	5.1	7.0	14.7	8.6	3.8	8.7	11.1		10.0				10.0		14.3		3.4
A SMALL BUSINESS LOAN	11	7	4	4	5	2	7	2	2	-	-	9	1	-	-	1	1	4	3	4
	7.3	8.5	5.9	6.8	8.8	5.9	10.0	7.7	8.7			9.0	6.7			5.0	6.3	5.2	10.3	13.8
COMMERCIAL FISHING LOAN	10	8	2	4	3	3	2	-	2	6	-	3	3	-	1	1	1	7	2	-
	6.7	9.8	2.9	6.8	5.3	8.8	2.9		8.7	22.2		3.0	20.0		50.0	5.0	6.3	9.1	6.9	
BUSINESS LOAN (UNSP)	8	6	2	3	5	1	3	-	2	3	-	6	2	-	-	-	-	6	1	2
	5.3	7.3	2.9	5.1	8.8	2.9	4.3		8.7	11.1		6.0	13.3					7.8	3.4	6.9
HOME IMPROVEMENT	6	3	4	4	3	-	2	2	1	1	-	6	-	-	-	-	-	4	1	1
	4.0	3.7	5.9	6.8	5.3		2.9	7.7	4.3	3.7		6.0						5.2	3.4	3.4
OPENING/STARTING A SMALL BUSINESS	5	3	2	3	2	1	3	1	1	-	-	4	-	-	-	1	1	3	1	-
	3.3	3.7	2.9	5.1	3.5	2.9	4.3	3.8	4.3			4.0				5.0	6.3	3.9	3.4	

(CONTINUED)

Q.36 FOR WHAT PURPOSE DO YOU NOW NEED A LOAN
 ** NOW NEED LOAN **

	LOCATION																			
	SEX			AGE			LOCATION										RESIDENCE			
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45	ANCH- ORAGE DOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	150	82	68	59	57	34	70	26	23	27	4	100	15	3	2	20	16	77	29	29
REAL ESTATE /LAND DEVELOP- MENT	5 3.3	4 4.9	2 2.9	1 1.7	3 5.3	2 5.9	3 4.3	1 3.8	1 4.3	-	-	3 3.0	-	-	-	1 5.0	-	4 5.2	-	1 3.4
MORTGAGE/ HOME MORTGAGE LOAN	4 2.7	2 2.4	2 2.9	1 1.7	2 3.5	1 2.9	1 1.4	2 7.7	-	1 3.7	-	3 3.0	1 6.7	-	-	-	-	2 2.6	1 3.4	1 3.4
COMMERCIAL BOAT VENTURES/ CONSTRUC- TION	4 2.7	3 3.7	1 1.5	-	4 7.0	-	-	-	2 8.7	2 7.4	-	4 4.0	-	-	-	-	1 6.3	2 2.6	-	1 3.4
BUY PROPERTY/ LAND	4 2.7	2 2.4	2 2.9	2 3.4	2 3.5	1 2.9	3 4.3	-	-	1 3.7	-	2 2.0	-	-	1 50.0	2 10.0	-	1 1.3	2 6.9	1 3.4
TO BUY A CAR	4 2.7	3 3.7	2 2.9	2 3.4	1 1.8	1 2.9	2 2.9	2 7.7	-	-	-	4 4.0	1 6.7	-	-	-	1 6.3	2 2.6	1 3.4	1 3.4
OPENING/ STARTING A BUSINESS	3 2.0	3 3.7	1 1.5	-	3 5.3	1 2.9	2 2.9	-	-	1 3.7	-	2 2.0	1 6.7	-	-	1 5.0	-	2 2.6	-	1 3.4
MODILE HOME	2 1.3	1 1.2	1 1.5	-	1 1.8	1 2.9	1 1.4	-	1 4.3	-	-	1 1.0	-	-	-	1 5.0	-	2 2.6	-	-
COLLEGE/ EDUCATION LOAN	2 1.3	1 1.2	1 1.5	1 1.7	-	1 2.9	2 2.9	-	-	-	-	1 1.0	-	-	-	1 5.0	-	2 2.6	-	-

(CONTINUED)

Q.36 FOR WHAT PURPOSE DO YOU NOW NEED A LOAN
 ** HOW NEED LOAN **

	LOCATION																			RESIDENCE		
	SEX			AGE			ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- DELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.		
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45																
TOTAL RESPONDENTS	150 100.0	82 100.0	68 100.0	59 100.0	57 100.0	34 100.0	70 100.0	26 100.0	23 100.0	27 100.0	4 100.0	100 100.0	15 100.0	3 100.0	2 100.0	20 100.0	16 100.0	77 100.0	29 100.0	29 100.0		
COMMERCIAL BUILDING	1 .7	1 1.2	-	-	-	1 2.9	1 1.4	-	-	-	-	-	-	-	1 50.0	-	-	1 1.3	-	-		
OTHER HOME LOAN MENTIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
OTHER MENTIONS	6 4.0	5 6.1	1 1.5	3 5.1	1 1.8	3 8.8	4 5.7	1 3.8	-	1 3.7	-	4 4.0	1 6.7	-	-	1 5.0	1 6.3	3 3.9	1 3.4	1 3.4		
UNASCER- TAINED/ REFUSED	12 8.0	6 7.3	7 10.3	5 8.5	4 7.0	3 8.8	5 7.1	1 3.8	2 8.7	1 3.7	4 100.0	8 8.0	1 6.7	1 33.3	-	3 15.0	2 12.5	3 3.9	4 13.8	3 10.3		
** NETS **																						
HOME LOANS	70 46.7	29 35.4	41 60.3	31 52.5	25 43.9	14 41.2	31 44.3	18 69.2	12 52.2	9 33.3	-	45 45.0	6 40.0	2 66.7	-	9 45.0	8 50.0	33 42.9	15 51.7	14 48.3		
BUSINESS LOANS	55 36.7	38 46.3	17 25.0	16 27.1	26 45.6	13 38.2	25 35.7	4 15.4	11 47.8	15 55.6	-	39 39.0	6 40.0	-	2 100.0	6 30.0	4 25.0	36 46.8	6 20.7	9 31.0		

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Q.37 IS THE 14-16 PCT. INTEREST RATE FOR NON-PRIME BORROWER IN ALASKA REASONABLE OR SHOULD STATE USE ALL ITS FINANCIAL TOOLS & POWERS TO REDUCE THE LOAN INTEREST RATE

	LOCATION																			
	SEX			AGE			RESIDENCE													
	TOTAL	MALE	FE-MALE	18-29	30-45	OVER 45	ANCH-ORAGE BOWL	FAIR-BANKS	SOUTH EAST-ERN COMM-UNITY	RAIL-BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL-OYED FULL-TIME	EMPL-OYED PART-TIME	STU-DENT	RE-TIRED	HOUSE WIFE	LIFE-TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
RATE IS REASONABLE	48	26	22	17	22	8	21	11	5	5	6	35	3	2	2	3	6	16	12	13
	8.6	9.3	8.0	8.9	9.7	5.9	8.9	12.2	6.2	5.4	10.9	10.3	4.5	13.3	9.1	3.9	8.6	6.5	9.5	11.6
DO WHAT'S POSSIBLE TO REDUCE RATE	472	238	234	162	194	115	205	72	71	82	41	285	59	12	20	70	57	218	105	93
	85.0	85.3	84.8	84.8	85.5	84.6	86.9	80.0	87.6	88.2	74.6	83.3	89.4	80.0	90.9	92.1	81.4	88.6	83.3	83.0
NOT SURE	36	15	20	11	11	13	10	7	5	6	8	22	4	1	1	2	7	13	10	6
	6.5	5.4	7.2	5.8	4.8	9.5	4.2	7.8	6.2	6.4	14.5	6.4	6.1	6.7	4.5	2.6	10.0	5.3	7.9	5.4

Q.38 SHOULD GOAL OF SUCH A PROGRAM BE TO GET THE INTEREST RATE DOWN TO ...
 ** STATE SHOULD DO WHAT'S POSSIBLE TO REDUCE RATE **

	LOCATION															RESIDENCE				
	SEX			AGE			ANCH- DRAGE DOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45														
TOTAL RESPONDENTS	472 100.0	238 100.0	234 100.0	162 100.0	194 100.0	115 100.0	205 100.0	72 100.0	71 100.0	82 100.0	41 100.0	285 100.0	59 100.0	12 100.0	20 100.0	70 100.0	57 100.0	218 100.0	105 100.0	93 100.0
12 PCT.	24 5.1	15 6.3	9 3.9	12 7.4	11 5.7	1 .9	13 6.3	4 5.6	1 1.4	2 2.4	4 9.8	20 7.0	2 3.4	-	1 5.0	-	1 1.8	10 4.6	8 7.6	5 5.4
11 PCT.	17 3.6	8 3.4	9 3.9	8 4.9	7 3.6	3 2.6	7 3.4	3 4.2	3 4.2	2 2.4	3 7.3	10 3.5	5 8.5	1 8.3	-	1 1.4	4 7.0	8 3.7	5 4.8	1 1.1
10 PCT.	125 26.5	59 24.8	66 28.2	45 27.8	45 23.2	35 30.4	52 25.4	17 23.6	23 32.4	24 29.3	9 22.0	80 28.1	15 25.4	5 41.7	4 20.0	16 22.9	10 17.5	61 28.0	26 24.8	27 29.0
9 PCT.	105 22.2	54 22.7	51 21.8	29 17.9	51 26.3	26 22.6	57 27.8	14 19.4	12 16.9	16 19.5	6 14.6	65 22.8	12 20.3	2 16.7	3 15.0	18 25.7	12 21.1	47 21.6	22 21.0	24 25.8
8 PCT.	94 19.9	53 22.3	41 17.5	30 18.5	42 21.6	22 19.1	37 18.0	20 27.8	12 16.9	18 22.0	7 17.1	57 20.0	10 16.9	2 16.7	6 30.0	12 17.2	10 17.5	45 20.6	24 22.8	15 16.1
7 PCT.	38 8.1	15 6.3	23 9.8	11 6.8	16 8.2	11 9.6	12 5.9	5 6.9	9 12.7	8 9.8	3 7.3	18 6.3	6 10.2	-	2 10.0	8 11.4	8 14.0	15 6.9	7 6.7	8 8.6
6 PCT.	15 3.2	7 2.9	8 3.4	5 3.1	5 2.6	4 3.5	7 3.4	2 2.8	2 2.8	3 3.7	1 2.4	6 2.1	4 6.8	-	1 5.0	3 4.3	1 1.8	8 3.7	3 2.8	2 2.2
5 PCT.	22 4.7	13 5.5	9 3.8	9 5.6	7 3.6	5 4.4	11 5.4	-	6 8.5	4 4.9	1 2.4	12 4.2	2 3.4	1 8.3	2 10.0	5 7.1	4 7.0	10 4.6	3 2.8	5 5.4
LOWER THAN 5 PCT.	13 2.8	5 2.1	8 3.4	7 4.3	4 2.1	2 1.7	7 3.4	2 2.8	1 1.4	3 3.6	-	6 2.1	2 3.4	2 16.7	-	2 2.9	3 5.3	5 2.3	2 1.9	3 3.2
NOT SURE	20 4.2	10 4.2	10 4.3	7 4.3	6 3.1	6 5.2	3 1.5	5 6.9	2 2.8	2 2.4	7 17.1	12 4.2	2 3.4	-	1 5.0	5 7.1	5 8.8	8 3.7	5 4.8	1 1.1

Q.44 HAVE THE EXECUTIVE & LEGISLATIVE BODIES DONE AS MUCH AS THEY SHOULD IN REDUCING INTEREST RATES IN ALASKA WHICH WOULD HELP OFFSET THE RESTRICTIONS PUT ON ALASKA LANDS OWNED BY THE FEDERAL GOVT.

	LOCATION																			
	SEX			AGE			RESIDENCE													
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45	ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
YES	98	60	38	24	47	27	41	12	15	20	9	64	12	2	6	8	16	35	27	21
	17.7	21.5	13.8	12.6	20.7	19.8	17.4	13.3	18.5	21.5	16.4	18.7	18.2	13.3	27.3	10.5	22.9	14.2	21.4	18.7
NO	370	178	191	128	151	90	174	58	49	62	27	227	42	9	15	55	40	181	76	73
	66.7	63.8	69.2	67.0	66.5	66.2	73.7	64.5	60.5	66.7	49.1	66.4	63.6	60.0	68.2	72.4	57.1	73.6	60.3	65.2
NOT SURE	88	41	47	38	30	19	21	20	17	11	19	51	13	4	1	13	15	31	23	18
	15.9	14.7	17.0	19.9	13.2	14.0	8.9	22.2	21.0	11.8	34.5	14.9	19.7	26.7	4.5	17.1	21.4	12.6	18.3	16.1

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Q.45 ARE YOU IN FAVOR OF DOING WHATEVER IS NECESSARY WITH THE PERMANENT FUND OR STATE BUDGET, TO ALLEVIATE EFFECTS OF RESTRICTED USES OF NATIONAL D-2 LANDS IN ALASKA THROUGH THE READY ACCESS TO STATE FUNDS PROVIDED BY THE STATE GOVT.

	LOCATION																			RESIDENCE		
	SEX			AGE			LOCATION												RESIDENCE			
	TOTAL	MALE	FE- MALE	18-29	30-45	OVER 45	ANCH- ORAGE BOWL	FAIR- BANKS	SOUTH EAST- ERN COMM- UNITY	RAIL- BELT, MATSU ETC.	RURAL WEST AND NORTH	EMPL- OYED FULL- TIME	EMPL- OYED PART- TIME	STU- DENT	RE- TIRED	HOUSE WIFE	LIFE- TIME	OVER 10 YRS.	5-10 YRS.	LESS THAN 5 YRS.		
TOTAL RESPONDENTS	555	279	276	191	227	136	236	90	81	93	55	342	66	15	22	76	70	246	126	112		
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
YES	348	181	167	137	135	76	158	52	51	57	29	212	41	11	17	48	43	154	77	74		
	62.7	64.9	60.5	71.7	59.5	55.9	66.9	57.8	63.0	61.3	52.7	62.0	62.1	73.3	77.3	63.2	61.4	62.6	61.1	66.1		
NO	134	70	64	31	68	34	57	24	21	22	10	91	15	3	3	16	10	58	39	26		
	24.1	25.1	23.2	16.2	30.0	25.0	24.2	26.7	25.9	23.7	18.2	26.6	22.7	20.0	13.6	21.1	14.3	23.6	31.0	23.2		
NOT SURE	73	28	45	22	25	26	21	14	9	14	16	39	10	2	2	11	17	34	11	12		
	13.2	10.0	16.3	11.5	11.0	19.1	8.9	15.5	11.1	15.0	29.1	11.4	15.2	13.3	9.1	14.5	24.3	13.8	8.7	10.7		



Official Business

Alaska State Legislature

Senate

Committee on
Community & Regional Affairs

Jim Rhode
#18:27
Pouch V
State Capitol
Juneau, Alaska 99811

February 20, 1980

TO: Senator Mulcahy
FROM: Margo W. Waring *MW*
for Senator Sturgulewski
RE: CSSSSB 1

I have reviewed the version of SB 1 distributed at the Free Conference Committee meeting of February 14, 1980. Below are questions which arose during that review. Briefly, we are concerned about the liberality with which funds will be disposed, control over and standards for loan decisions, encouragement of default on loans, the cost to the state of administering the loan program and the extent of "hidden" subsidies.

If you would care to discuss these questions further, we could meet at your convenience.

- 1) 37.13.020(b)(4) The restriction on closing fee costs to .5%. Few banks appear to have fees this low.
- 2) Chapter 96
45.96.010 Purpose:
 - 1) lowest interest rates possible
 - 2) make loans available
 - 3) lower cost of living

These seem rather narrow goals for a program that could have such a massive effect on Alaska's economy.

- 3) 45.96.100 Tax Exemption: What are the implications of exempting "all property of the fund" from state and local taxes, as the property can include all sorts of real property?
- 4) 45.96.110 Sale of Bonds. This section states that there may be either public or private bond sales until 7/1/84, after which there may only be public sales. Why? Further, although the section describes (b) and controls public sales, there is no similar provision for private sales. Why?
- 5) 45.96.150. Loss Reserve Account consists of 5% of outstanding loans. Yet the "narrative" describes a higher default rate. What will be the source of funds for the difference?
- 6) 45.96.180. Budget. The operating budget is a general fund appropriation. What is the estimated cost of the Alaska Loan Program?

- 7) 45.96.200. Loan Procedures. Loans of less than \$350,000 (b) are made by district office's director and two loan officers. Are funds going to be allocated among district offices? First-come-first-served? Loans of more than \$350,000 are decided by three people in DC&ED.(c)
- 8) 45.96.210. The function of the Loan Program Evaluation Committee (which may consist of the same persons who made the initial loan) is to find these alternative conditions which would prevent loan default. Given the high rate of default, there are no guidelines presented regarding tolerable limits of such conditions.
- 9) 45.96.240. (1) Residential loans may be made to "sponsors" of "land development projects." What does this mean? Why are mortgage loans to be made to "sponsors, developers, builders, and purchasers," rather than to owners/purchasers? In (7) indication is made that the only loans "fully guaranteed as to payment of principal and interest by the fund are those bought by PERS or TRS. What are the implications of this?
- 10) 45.96.250. District offices have wide latitude in making loans (more than one/per borrower) for a variety of projects, such as farm irrigation, working capital, or boat upgrading which might make only marginal difference in profit rates. What review mechanism exists for district descretion regarding such loans?
- 11) Loans to public utilities for hydroelectric generation and water supply, include loans for operation. There needs to be a greater control over such projects for coordination and avoidance of duplication and to assure the lowest possible rates to consumers. Loans can be made for design, for "expenses incurred in securing necessary permits and licenses." This includes loans made prior to determinations of feasibility. It is also questionable that some of the costs should be subsidized by the public, since they also pays for the cost of analysis and issuance of the licenses and permits.
- 12) 45.96.290. The division director must lend money (up to \$5 million) to small municipalities and eligible corporations, overriding other lending criteria. The loan is at cost, without any contribution to the loss reserve account. Bonds "need not be in definitive form." The director must bid on GOBS of home rule boroughs or cities (b) or any incorporated city or borough. Despite any other prudent loan criteria, the terms of the bid are set by statute (b)(1) and, if there are no other bids, the bonds must be purchased at 6%. The same is true for non-profit corporations (c) which supply public services as defined by the revenue sharing program. None of the limitations or protections of the bill apply to loans made to cities, boroughs, non-profit corporations (b). Will this lead to an unsupportable level of costly public services? Effect default rates?
- 13) 45.96.300 If a municipality defaults on any bond, payment of principal and interest is made by state departments or agencies which have money owing to the municipality. The only other measure to insure non-default of the loan is a penalty for not notifying the Commissioner of Revenue twenty days before default. This penalty is a new ground for removal from office (optional) and mandatory if the default occurs. But

there are no other provisions to protect the state's interest, except that such loans are secured by general funds (46.96.310). Does this encourage default?

14) 45.96.320. Industrial Development Loans. The state loan Committee issues bonds on behalf of businesses. The property will belong to the municipality of location "unless the municipality has provided otherwise" before the loan is approved. What does this mean? Will municipalities face the choice of determining financial feasibility themselves (prior to loan approval), take on risky properties that could obligate municipal funds or forever waive property rights in favor of the proposed business?

(c)(1) gives the local governing body only 60 days in which to approve the project. Non-response is taken as approval. Given that loan applications can be made at a point so early in project design as to have few details, these provisions appear unfair and restrictive of local control.

15) 45.96.330. Project Costs Eligible for Bonding. Is an overly broad range of costs eligible for bonding (financing costs, insurance premiums, "fees and expenses of trustees....and financial advisors...")?

16) 45.96.340. What will be the ultimate cost (real and opportunity costs) of non-interest bearing loans, 40% of which shall be forgiven?

17) 45.96.360. Eligibility for Loans. Loan eligibility requirements do not apply to Industrial Development Loans. Apparently, this means that a would-be industrial developer could borrow millions, even if in bankruptcy, default or delinquency. (45.96.360(1)(2)). Is this wise?

18) 45.96.380. Why has the DOT/PF been selected as the agency responsible for determining the cost of living in areas of the state? How expensive will it be to make such determinations?

19) 45.96.390. What is the relationship of these loan limitations (up to 100% of the maximum amount to five year residents) to collateral requirements in other sections?

20) 45.96.400. Why are educational and industrial loans exempted from value limitations? 45.96.410. Isn't it unusual to secure loans with personal property?

21) 45.96.420. What kind of municipal subsidy is involved in loans at less than the cost of money? When the revolving loan fund (b)(c) is depleted by payments to cover the difference between rate to the borrower and the cost of money, what general fund costs can be anticipated and projected? Are future funds being appropriated by this legislature?

22) 45.96.425(b). It seems unfair that, if our loans are made to veteran's dependents, they can't be made to the veteran's parents, if they are still married.

23) 45.96.430-440. What sorts of costs will be incurred by these sections. Are large increases in general funds/growth of government going to result from new services (also re. .380)? Regarding the new divisions and positions, the same question should be asked?

24) 37.05.159. Is the establishment of the Comprehensive Loan Program Reserve Account within the general fund a dedication of funds in violation of the Alaska Constitution?

In conclusion, one more point can be made regarding the Loan Program. A great many separate accounts are established. Each will be invested and managed. Potential for abuse is inherent in money management at this scale. Are the oversight provisions (Legislative Budget & Audit) adequate?

NOTES ON PURPOSES, ORGANIZATION,
MANAGEMENT AND REPORTING
PROPOSALS IN SB 1

I. The Alaska Permanent Fund

A. Purposes

- A separate fund consisting of certain state mineral revenues.
- Used for income-producing investments which may include in-state investments that have a risk level and expected yield comparable to specified alternative investment opportunities and consistent with the prudent-man rule.
- Permanent: "1. Fixed and changeless; lasting or meant to last indefinitely" (Source: The American Heritage Dictionary of the English Language, 1970). "1. Lasting or intended to last indefinitely without change; continuing in the same state or in the same place, stable, durable, abiding." (Source: Webster's New Universal Dictionary of the English Language, 1976)
- Accumulate sufficient income in the Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources (Source: Joint Chairman's Report on CS SSHJR 39, March 24, 1976).
- Purpose of the income is to secure obligations of the proposed Alaska Loan Programs Fund.

B. Organization Management and Reporting for the Principal (assets) of the Alaska Permanent Fund

- Policy decisions about permissible types and proportions of investments would be made by the legislature and contained in the statute.
- Operational decisions about specific investments would be taken by the Commissioner of Revenue and his staff.
- Commissioner of Revenue is appointed by the Governor, confirmed by the Legislature, and serves at the pleasure of the Governor.
- Annual operating budget subject to the Executive Budget Act.
- Quarterly and annual investment reports to the Legislative Budget and Audit Committee, Investment Oversight Division (proposed).
- Annual report to Governor, Legislature, and public.

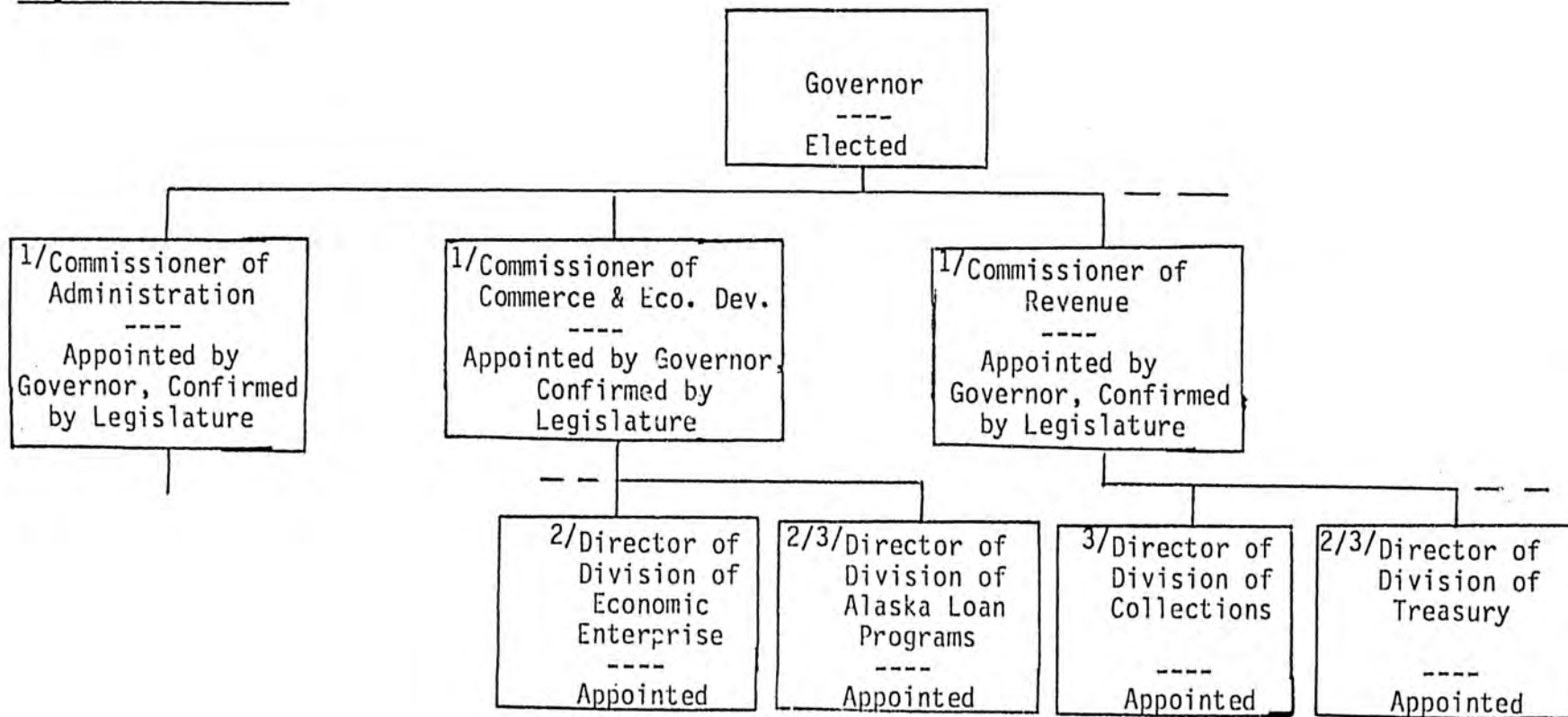
II. The Alaska Loan Programs Fund

A. Purposes

- Use virtually all the State's financial resources, other than those required for normal operations of State government.
- Provide the lowest possible interest costs to Alaska borrowers, consistent with sound financial practices.
- Make available to all sectors of the Alaska economy loans including long-term financing.
- Establish a strong, single loan source.
- Make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector(s).
- Import capital to fund loans to the veterans, housing, commercial, public, non-profit, and education sectors in Alaska.
- Refund any or all existing state or municipal general obligation and revenue bonds.
- Provide fire and liability insurance for projects financed by the Alaska Loan Programs Fund.
- Provide a market for all future general obligation bonds issued by Alaska municipalities.

B. Management of the "Alaska Loan Programs Fund."

Organization Chart



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Notes: 1/These three Commissioners function as the "State Bond Committee"

2/These three Directors would function as the "Alaska Loan Programs Evaluation Committee"

3/These three Directors could be classified as partially exempt

C. Decisions

- Policy decisions about general loan program sectors; i.e., municipalities with populations less than 5,000, non-profit corporations, all other municipalities, veterans, industrial development, education, tourism, child care facilities, fishermen and other business; individual loan amount upper limits and recipient categories would be made by the Legislature and included in the statute.
- Policy decisions about the amount of revenue bonds to be sold to provide funding of the Alaska Loan Programs Fund would be made by the State Bond Committee.
- Policy decisions about the investment of fund cash balances and reserve accounts would be made by the Director of the Division of Treasury, subject to the approval of the Commissioner of Revenue, unless disapproved by the Legislature within a period of 60 days.
- Policy decisions about the total amount of loans to be made to various sectors of the economy would be made by the Director of the Division of Loan Programs, apparently without reference to a Commissioner.
- Policy decisions about interest rates to be charged would be made by the Commissioner of Revenue.
- Policy decisions about further subsidies of interest rates to be charged would be made by other loan agencies such as the ARRC.
- Operating decisions about rescheduling and foreclosing on delinquent loans would be made by the Alaska Loan Programs Evaluation Committee apparently without reference to a Commissioner.
- Annual operating budget subject to the Executive Budget Act.

D. Reporting

- Monthly reports on investments by Director of the Division of Treasury to the Legislative Budget and Audit Committee.
- Monthly reports on loan defaults by the Department of Administration to the Departments of Revenue and Commerce and Economic Development, and to the Legislative Budget and Audit Committee.

- Monthly reports on loan collections by the Division of Collections to the Legislative Budget and Audit Committee.
- Quarterly reports on investments, defaults and collections by the Legislative Budget and Audit Committee to the Legislature.

P. B. McDowell
February 29, 1980

NOTES ON LOAN PROGRAMS/REVENUE BONDING AUTHORITIES

A. General Notes

What are the possible goals of the Legislature (House)?

1. Primary Goals

- (a) Import capital to fund housing, business/industry and state/municipal capital projects in Alaska.
- (b) Expand the Alaska economy in terms of GDP and personal disposable income of present residents, (not in terms of revenue to state government).
- (c) Plan the economic development of Alaska, where
 - State government is the planning agency
 - Private and municipal sectors are encouraged (but not coerced) to fit into State plans with financial incentives provided by State bonding, loan and equity investment programs
- (d) Provide loans at below market interest rates to Alaskan residents, municipalities, and non-profit corporations for limited and/or unlimited purposes.
- (e) Make loan program/revenue bonding policy explicitly (on purpose) rather than implicitly (accidentally) as at present.
- (f) Unify various state loan programs into a single program to enhance planning for priorities and increase organizational visibility and legislative control.

2. Secondary Goals Re Management

- (i) Criterion: The distance from the Legislature with regard to policy and operating decisions.
- (ii) Definitions: Policy decisions are those which define the size, classes of expenditure and general criteria for differentiating among individual recipients of program funds or services.

Operating Decisions are those which differentiate among individual recipients and determine the amounts allocated to individual recipients.

Possibilities

- (a) Policy and operating management by the Legislature itself, or a subdivision thereof
- (b) Policy and operating management by independent state corporation separate from the Commissioner-headed departments
- (c) Policy and operating management by a single commissioner level department of the executive
- (d) Policy management by multiple commissioners (a committee) and operating management by state civil servants not subject to confirmation
- (e) Operating management by private sector commercial banking institutions
- (f) Policy and operating management by municipalities
- (g) Policy and operating management by non-profit and/or quasi-municipal government corporations
- (h) Policy and operating management by state civil servants below the levels subject to Legislative confirmation.

N.B. For all the alternatives above, policy and operating management could be separately assigned to any two alternatives.

#18:27

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"

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

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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.

January 10, 1980

MEMORANDUM TO: ALASKA DEPARTMENT
OF REVENUE
TREASURY DIVISION

FROM: GEORGE G. WOLF
ORRICK, HERRINGTON, ROWLEY
& SUTCLIFFE

Re: CSSSSB 1

This memorandum discusses the relationship between Committee Substitute for Sponsor Substitute for Senate Bill No. 1, entitled "An Act relating to nonrenewable resource revenues; to legislative oversight; and providing for an effective date" (hereinafter referred to as the "Bill"), and Section 103 of the Internal Revenue Code of 1954, as amended (the "Code"), which governs the exemption from federal income tax for interest on state and municipal obligations. Particular emphasis will be placed on the questions raised in Deputy Commissioner Bushre's letter of June 20, 1979.

I. THE BILL

The central features of the Bill are (i) the creation of the Alaska Loan Programs Fund (the "Fund"), amalgamating several now separate loan programs of the State, to be funded with the proceeds of Revenue Bonds

issued for the Fund, and (ii) providing substantial security for such Bonds through the mechanism of the Allocated Reserve Account, which will receive one-half of the income from the Permanent Fund. As stated in Section 9 of the Bill (AS Sec. 45.96.010), "A single state source of lending will provide strong assurance of repayment of its loans and thereby lower the cost of borrowing to the state. ... A strong, single loan source, by being available to secure interest rates and terms better than those available to loan funds limited in size for a specific purpose, will make a significant contribution to lowering costs of living for Alaska residents and costs of operations in the private and public sector."

A schematic diagram of the relevant provisions of the Bill is attached as Exhibit A.

First, the Bill creates the Fund (45.96.020 (a)). Revenue Bonds are issued by the State Bond Committee to carry out the purposes of the Fund (45.96.030). Proceeds of the Bonds are deposited in the Fund (45.96.030 (a)), which are then used to make loans (45.96.230). Loans may be made for single-family and multi-family residential housing (45.96.240), for general commercial purposes (45.96.250), to small municipalities (45.96.290),

for industrial development activities (as defined in Section 103(b)(4) and (5) of the Code) (45.96.330), and for tourism, historical preservation, and open space purposes (45.96.350). Although the Bill provides that loans may also be made for educational purposes (45.96.230), the portions of a prior version of this Bill (SSSB 1) setting forth eligibility requirements, loan limits, and so forth for education loans have been eliminated in this Bill.

Interest on loans is to equal the Fund's cost of borrowing (45.96.420(a)) plus additional amounts described below to fund various reserve accounts. All of the assets of the Fund are pledged as security for the Revenue Bonds issued to finance the Fund (45.96.030 (b)). The Fund's operating budget is to be paid from the General Fund, unless appropriations for that purpose are made from the Unallocated Reserve Account (45.96.180).

Second, the Bill creates a series of reserve accounts and the mechanisms for funding them. Principal among these is the Allocated Reserve Account (45.96.120), which is funded with one-half of the average annual income from the Permanent Fund (45.96.120). The Allocated Reserve Account can, in addition, be funded with optional appropriations from the General Fund (45.96.120), from

the Unallocated Reserve Account (45.96.125(b)), or from the Comprehensive Loan Program Reserve Account (37.05.159(a)).

The Unallocated Reserve Account is funded with the annual General Fund surplus exceeding \$100,000,000 (45.96.125(a)). The Comprehensive Loan Program Reserve Account is funded with 15 percent of amounts received by the State for lease bonus, rents from State property, and royalties from the disposition of minerals owned by the State (37.05.159(b)).

The Capital Reserve Account is funded from the Allocated Reserve Account in an amount equal to 5 percent of each Revenue Bond issue outstanding (45.96.140). Amounts in the Capital Reserve Account may be used only to pay debt service on Revenue Bonds, with any surplus being returned to the Allocated Reserve Account (45.96.140).

The Loss Reserve Account (45.96.150(a)) is funded by amounts in the Allocated Reserve Account (45.96.120) and an additional one percent interest charge on the Fund's loans (45.96.150(c), 45.96.420(a)) in an amount equal to 5 percent of the amount of Fund loans outstanding each year. Amounts in the Loss Reserve Account may be used only to reimburse the Fund for losses realized from loans, with any surplus being

returned to the Allocated Reserve Account (to the extent of amounts previously advanced to the Capital Reserve Account and the Loss Reserve Account) and to the earned income account of the Fund (to the extent of the excess) (45.96.150(d)).

The Fire and Liability Reserve Account (45.96.165) is funded with an optional 0.6 percent additional interest charge on loans (45.96.165) and by amounts in the Allocated Reserve Account (45.96.120) in an unspecified amount but apparently to the extent necessary to reimburse the Fund for losses realized on uninsured property, which is the only permitted use of amounts in the Account.

The Debt Service Reserve Account is funded with Bond proceeds to the maximum extent permitted under Section 103(c) of the Code (45.96.130). Amounts in the Debt Service Reserve Account may be used only to pay debt service on the Bonds (to the extent that other amounts in the Fund and the Capital Reserve Account are insufficient to pay such debt service), with any surplus going to the Allocated Reserve Account (45.96.130).

The Municipal Bond Capital Reserve Account is funded by amounts in the Unallocated Reserve Account

in an amount equal to 5 percent of the amount of municipal obligations acquired by the Fund (45.96.320). The Bill is unclear whether amounts in the Municipal Bond Capital Reserve Account secure Revenue Bonds issued by the Fund the proceeds of which are used to acquire municipal obligations, or whether such amounts secure the municipal obligations themselves. Any surplus is returned to the Unallocated Reserve Account (45.96.320).

II. SECTION 103

Section 103(a) of the Code provides that interest on the obligations of a state or any political subdivision thereof is exempt from federal income tax. In general, Revenue Bonds issued by the Alaska State Bond Committee on behalf of the Fund would be exempt under this provision.

Tax exemption would be denied, however, if such Bonds were "industrial development bonds" ("IDB"), unless one of the specific exceptions for such treatment were satisfied. Tax exemption would also be denied if the Bonds were "arbitrage bonds."

In addition, tax exemption could be lost if the Bonds constituted "mortgage revenue bonds," "mortgage subsidy bonds," or some similar designation under

various bills now pending before the Congress.

It is presumed that the exemption from federal income tax on the Bonds is one of the fundamental objectives of the Bill. Bonds contemplated by the Bill, however, are affected by both of the existing exceptions to such treatment, as well as by the anticipated exception for mortgage bonds.

III. INDUSTRIAL DEVELOPMENT BONDS ASPECTS

A. IDBs Generally

Section 103(b)(2) defines IDBs in terms of two tests, commonly referred to as the "trade or business test" and the "security interest test." Both tests must be met for an obligation to be an IDB.

The trade or business test refers to the use to which the proceeds of bonds will be put, and provides that an obligation will be an IDB if "all or a major portion of the proceeds of [such obligation] are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person ..." Sec. 103(b)(2)(A). A "major portion" for this purpose means more than 25 percent of the proceeds of the obligation. Treas. Reg. § 1.103-7(b)(3)(iii).

Section 103(b)(3) defines the term "exempt person" to mean a governmental unit, or an organization

described in Section 501(c)(3) of the Code and exempt from tax under Section 501(a) (but only with respect to a trade or business carried on by such organization which is not an unrelated trade or business within the meaning of Section 513(a) of the Code). For this purpose, however, one must look to the ultimate use of the proceeds. For example, bonds issued by a state the proceeds of which are loaned to a city, which in turn loans the proceeds to a nonexempt person for use in a trade or business, will satisfy the trade or business test. Treas. Reg. § 1.103-7(b)(3)(ii).

In short, Bonds will meet the trade or business test for IDBs if more than 25 percent of the proceeds are loaned or otherwise made available to private commercial enterprises.

The security interest test relates to the security for repayment of the obligations. Under this test, an obligation will be an IDB if "the payment of the principal or interest on [such obligation] (under the terms of such obligation or any underlying arrangement) is, in whole or in major part - (i) secured by any interest in property used or to be used in a trade or business or in payments in respect of such property, or (ii) to be derived from payments in respect of prop-

erty, or borrowed money, used or to be used in a trade or business." Again, a "major part" means more than 25 percent, and the test is satisfied if more than 25 percent of the principal or more than 25 percent of the interest on an obligation is secured by property, etc. used in a trade or business. Treas. Reg. § 1.103-7(b)(4). If the security interest test is satisfied, the presence or absence of a pledge of the full faith and credit of the issuer is irrelevant. Ibid.

For the security interest test to be satisfied there need be no relationship between the property or borrowed money which provides security for the bonds and the use of the proceeds of the bonds. Treas. Reg. § 1.103-7(b)(4). In other words, if the proceeds of a bond issue are used in the trade or business of one nonexempt person, and the bonds are secured by property used in the trade or business of another person, the security interest test is satisfied, and the bonds are IDBs.

If an obligation is not directly secured by property, etc. used in a trade or business, the security interest test will nonetheless be satisfied if there is an "underlying arrangement" that the principal or the interest on such obligation will be paid from amounts derived from payments in respect of property,

or borrowed money, used in a trade or business. For example, if an industrial development authority issues bonds the proceeds of which are loaned to private commercial enterprises, and it is clear from all of the facts and circumstances that the only source of payment of debt service on the bonds (or more than 25 percent of either the principal or the interest on such bonds) will be payments received with respect to such loans, the security interest test is satisfied even if there is no direct pledge of the loans or the revenues therefrom as security for the bonds. Treas. Reg. § 1.103-7(c), Example (14). On the other hand, where a state issues general obligation bonds the proceeds of which are loaned to private commercial enterprises, the loans and payments with respect thereto are not pledged as security for the bonds, there is no particular correlation between loan repayments and payments of debt service on the bonds, and it is clear that the state has sufficient other revenues to repay the bonds, there is no underlying security arrangement between the bonds and the commercial loans and the security interest test is not satisfied. Rev. Rul. 75-403, 1975-2 C.B. 37.

In summary, an IDB is any obligation more than 25 percent of the proceeds of which are used in

private commercial businesses and more than 25 percent of the principal or interest on which is secured by property, payments in respect of property, or borrowed money, used in private commercial businesses.

B. IDB Exceptions

Notwithstanding that an obligation is an IDB because it meets both the trade or business test and the security interest test, it may nonetheless carry tax-exempt interest if it meets one or more of three exceptions set forth in the Code.

The first exception, referred to as the "exempt activities" exception, provides that tax-exempt treatment shall not be denied if substantially all of the proceeds of an obligation are used to provide certain types of facilities specifically enumerated in the statute. I.R.C. Sec. 103(b)(4). These facilities are residential real property for family units, sports facilities, convention or trade show facilities, certain types of public transportation facilities, sewage or solid waste disposal facilities, facilities for the local furnishing of electric energy or gas, air or water pollution control facilities, and facilities for the furnishing of water. All of these types of facilities have extensive requirements as set forth in Treasury

Regulations, § 1.103-8, the most significant of which is that most of such facilities must be available on a regular basis for general public use. Treas. Reg. § 1.103-8(a)(2).

The second exception is for bonds substantially all of the proceeds of which are used for the acquisition or development of land as the site of an industrial park. I.R.C. Sec. 103(b)(5). This exception does not permit bond proceeds to be used for the construction of buildings. Again, Treasury Regulations, § 1.103-9, provide extensive refinement.

The third exception, referred to as the "small issue" exception, permits the issuance of up to \$1 million in tax-exempt obligations if substantially all of the proceeds are used to provide or improve land or depreciable property. I.R.C. Sec. 103(b)(6)(A). Under stringent restrictions relating to the total cost of the project being financed, the \$1 million limit may be increased to \$10 million. I.R.C. Sec. 103(b)(6)(D).

The term "substantially all" for purposes of each of the above exceptions means 90 percent or more. Treas. Reg. § 1.103-8(a)(1)(i). In addition, this test is satisfied if 90 percent or more of the bond proceeds are used in some combination to provide exempt facili-

ties, industrial parks, and/or loans to exempt persons.
Treas. Reg. § 1.103-8(a)(1)(ii).

C. Applications to CSSSSB 1

As pointed out in more detail in my testimony on SSSB 1 before the House Special Committee on the Permanent Fund on March 29, 1979, that Bill did not make clear whether there would be a complete pooling of all Bond proceeds for making all types of permissible loans, whether proceeds of particular Bonds would always be targeted to particular loans or types of loans, or whether there would be some combination of these alternatives (i.e., proceeds of some Bonds would be targeted with the rest pooled). A similar ambiguity is present with respect to Fund revenues. For purposes of this memorandum, it will be assumed that AS 45.96.030(f) would give the State Bond Committee sufficient discretion on this point as to give them the maximum latitude to issue all types of Bonds while retaining tax exemption under Section 103 of the Code.

1. You have asked "To what degree can a multiple purpose be commingled and still retain tax exempt status? Would a pooling of various commercial loans, such as is proposed by this legislation, violate the single purpose rule? To what degree must non-

commercial purposes exceed commercial purposes to retain the tax exempt status of the issue?"

There is nothing in Section 103 that limits the number of purposes to which the proceeds of tax-exempt bonds may be put. On the contrary, the regulations explicitly acknowledge that a single issue of obligations may be used for several different purposes. See, e.g., Treas. Reg. § 1.103-8(a)(1)(ii). For example, a city may issue \$10 million of bonds and use \$2 million to provide sewer facilities, \$2 million to build a school, \$2 million to improve roads, \$2 million to provide single-family housing subsidies (under current law), and \$2 million to make commercial loans without losing the tax exemption (assuming common security, to be discussed below). Provided that the ratio of noncommercial uses to private business uses is at least 3 to 1, the bonds will not be IDBs.

The types of loans contemplated by the Bill include both commercial and noncommercial loans. Noncommercial loans would include single-family residential housing loans (under current law), municipal loans (keeping in mind the ultimate use of proceeds), and noncommercial historical preservation and open space loans. The commercial loans would include multi-family

residential housing loans, general commercial loans, industrial development loans, tourism, and commercial historical preservation and open space loans. It is important to keep in mind that loans for exempt activities, industrial parks, and small issues are commercial loans for this purpose even if they might qualify for exemption. If, under a complete pooling of proceeds arrangement, the noncommercial loans constituted at least 75 percent of the total principal amount of loans made by the pool, Revenue Bonds issued by the Fund should not be IDBs. This would be true also under limited pooling if the noncommercial loans in the pool were at least 75 percent of the total loans made by the pool.

It must be emphasized that it is the ratio of noncommercial to commercial loans to be made from the pool of Bond proceeds that will determine whether the trade or business test is satisfied. Outstanding loans made with the proceeds of prior Bonds will not count. For example, if prior Bond issues totalling \$100 million had been used to make exclusively noncommercial loans, the Fund could not use such loans to leverage a new \$25 million issue all of the proceeds of which would be used to make commercial loans.

Because of the novelty of the concept of an omnibus loan program, it would be advisable to obtain a ruling from the Internal Revenue Service ("IRS") on this point. The IRS could take the position, for example, that the proceeds of particular Bonds must be traced to particular loans to determine whether the trade or business test is met, notwithstanding the fact that such proceeds are pooled with the proceeds of several other Bonds. It might also require extensive accounting procedures to insure compliance with the proper ratios.

2. You have asked "Would this fund have the ability to issue revenue bonds under the exempt activity, industrial park and small business exception provisions? Would this fund have the ability to issue exempt revenue bonds under the Housing Act?"

If all Bonds, or some portion of the Bonds, were targeted to specific loans or types of loans, the Fund could issue Bonds under the exempt activities, industrial park, and small issue exemptions under Section 103(b)(4), (5), and (6), respectively. Similarly, under complete or limited targeting, the Fund could issue tax-exempt Bonds under Section 11(b) of the Housing Act of 1937 (42 U.S.C. 1437), provided that requirements set forth in Housing and Urban Development

Department Regulations (24 C.F.R., § 811.0 et seq.) are satisfied (which could separately cause serious problems).

As indicated above, certain types of loans may be combined under these exceptions. That is, Bonds the proceeds of which are targeted to exempt facilities, industrial parks, and/or exempt persons (e.g., municipalities) will be tax exempt, provided that 90 percent or more of the proceeds are used for such purposes and that the other requirements for exemption are met.

These exceptions would not be available under a complete pooling approach. Treasury Regulations, § 1.103-8 (dealing with exempt activities) and § 1.103-9 (dealing with industrial parks), clearly contemplate a tracing of Bond proceeds into the required expenditures in order to determine compliance. Of course, if more than 90 percent of the total loan pool consisted of exempt activities, industrial park, and exempt persons loans, this problem could be eliminated.

Under no circumstances, however, could Bonds be issued under the small issue exception under a complete pooling approach. This exception generally requires that each small issue be separately secured. Rev. Rul. 74-380, 1974-2 C.B. 32; Rev. Rul. 77-55, 1977-1 C.B. 20. Housing Act Bonds also could not be

issued in combination with other types of Bonds. Housing and Urban Development Department regulations specifically contemplate that such Bonds will be linked to specific housing projects.

3. You have asked "Would you please define the 'security interest test' and how does this test impact the legislation as proposed?"

As applied to Bonds issued by the Fund as contemplated by the Bill, the test would almost certainly be met because of the pledge of the assets of the Fund as security for the Bonds if commercial loan repayments constituted security for as much as 25 percent of the interest on the Bonds.

As I mentioned in my previous testimony, it is possible that the security provided by a very large number of very small commercial borrowers is insufficient to satisfy the security interest test. The argument would be that such Bonds are hardly different from those issued by a city and secured by the general property taxing power of the city, where more than 25 percent of the value of all such property is commercial. Such bonds ordinarily are not thought to meet the security interest test. It is uncertain, however, whether the IRS would agree with that proposition,

and a ruling should be sought before relying on the theory.

Another possibility exists for completely breaking the security interest test for all Bonds issued by the Fund, thus eliminating IDB status entirely. At the March 26, 1979 hearing before the House Special Committee on the Permanent Fund, the State's financial advisor stated that for the substantial reduction in interest expense contemplated by the Bill to be achieved, potential purchasers of the Fund's Bonds would ignore the Fund's assets (i.e., its loans) and look solely to the various reserve accounts as security for the Bonds. In other words, to achieve lower interest rates, the amount of Bonds that could be issued by the Fund would be limited to the amount of debt service that could be covered by the income from the Permanent Fund that is pledged as security for such Bonds. If that is the case, the pledge of the Fund's loans as security for the Bonds could be eliminated (and in fact specifically be precluded from being used to pay debt service on the Bonds). If commercial investments (e.g. corporate bonds) were eliminated as permissible investments for the Permanent Fund and the various reserve accounts, there would be no commercial

security for the Bonds, and the security interest test would not be satisfied. Although serious arbitrage bond questions would still remain, such an arrangement would largely eliminate any IDB problems.

Under such an arrangement, whatever was collected on loans made by the Fund could be placed in a separate account and be used to make additional loans. Assuming some reasonable return on such loans, the Fund's need to borrow money could be eliminated entirely at some time in the future.

4. Another question raised by the IDB provisions as applied to the Bill is what constitutes a separate "issue" of bonds. As mentioned previously in connection with the small issue exemption, the IRS takes the position that two or more obligations are part of a single "issue" if they are sold at substantially the same time and have common security. A similar concept is applied under the arbitrage regulations (Treas. Reg. § 1.103-13(b)(10)), and it is likely that the IRS would apply this concept to bonds generally. For this reason, Bonds the proceeds of which are targeted to particular loans or particular types of loans may have to be secured solely by those loans in order to insure that such Bonds are not aggregated with other Bonds

issued at substantially the same time. This may be important for determining whether substantially all of the proceeds of a particular "issue" of Bonds is used, for example, to provide an exempt facility. On the other hand, it is possible that a ruling could be obtained from the IRS that, so long as the use of the proceeds of a particular series of Bonds can be traced into an exempt activity, etc., common security will not result in aggregation.

In any event, a ruling may be advisable that the common security provided to all Bonds by the Capital Reserve Account, the Loss Reserve Account, and the Fire and Liability Reserve Account does not result in pooled security for purposes of determining what constitutes a separate "issue" not only for general IDB purposes but also specifically for any Bonds intended to qualify under the small issue exemption.

IV. MORTGAGE REVENUE BOND BILLS

A. Proposed Bills

On April 26, 1979, Mr. Al Ullman, Chairman of the House Committee on Ways and Means, introduced H.R. 3712, 96th Cong., 1st Sess. That bill proposed to add a new subsection (g) to Section 103 of the Code, which would eliminate tax exemption for any "mortgage subsidy

bond." The bill defined a mortgage subsidy bond as any obligation "all or a significant portion of the proceeds of which are to be used directly or indirectly for mortgages on (or other owner-financing of) owner-occupied residences." The only exception would be for veterans loan programs. In addition, restrictions were placed on the residential housing exempt activities exception, restricting tax-exempt bonds to finance such projects to low or moderate income rental housing.

H.R. 3712, as reported out of Committee, was substantially revised. Significant for purposes of this memorandum, the revised version of that bill provided that any "mortgage subsidy bond," again defined as any obligation all or a significant portion of the proceeds of which are used directly or indirectly for mortgages on owner-occupied residences, would not be tax exempt unless it constituted a "qualified mortgage bond" or a "qualified veterans' mortgage bond." A qualified mortgage bond was further defined as one all of the proceeds of which were to be used to finance owner-occupied residences and which satisfied extensive loan eligibility requirements, basically geared to targeting such loans to low and moderate income persons. The most current version of this bill now pending in

the House (H.R. 5741) is substantially similar to H.R. 3712 in these respects.

Various other bills have been introduced more or less to the same effect, including the so-called Williams Bill, the Heinz Bill, and the Leahy Bill. All such bills either prohibit mortgage subsidy bonds entirely or restrict tax exemption to bonds where either all or substantially all of the proceeds are used to provide residential mortgages under various restrictions.

It is likely that some form of restriction on mortgage revenue bonds will become law some time this year, although congressional interest has waned somewhat in recent months.

B. Effects on CSSSSB 1

Assuming one of the mortgage reserve bond bills becomes law in the near future, its likely effect on Revenue Bonds issued by the Fund would be to eliminate single-family residential housing as a source of noncommercial loans for purposes of determining whether the trade or business test for IDB classification is satisfied. In other words, commercial loans could not be "leveraged" with mortgage loans either at all or at best at a ratio of 1 to 9, for purposes of determining whether the Fund's Revenue Bonds are IDBs.

In order for the Fund to make single-family residential mortgage loans, Revenue Bonds would likely have to be specifically targeted for that purpose. Together with the other types of loans contemplated by the Bill that would require such treatment, virtually the only remaining source of noncommercial loans upon which to leverage the commercial loans for determining IDB status would be municipal loans and noncommercial historical preservation and open space loans.

V. ARBITRAGE BOND ASPECTS

A Arbitrage Bonds Generally

Section 103(c) of the Code denies tax exemption to any "arbitrage bond." An arbitrage bond, in essence, is an obligation the proceeds of which are invested at a profit. More particularly, Section 103(c)(2) defines an arbitrage bond to be any obligation all or a major portion of the proceeds of which, at the time of issuance, are reasonably expected to be used, directly or indirectly, to acquire securities or obligations which may be reasonably expected at the time of issuance to produce a yield, over the term of the issue, which is materially higher than the yield on the obligation, or to replace funds that were used to acquire such other securities or obligations.

Section 103(c)(4) provides that an obligation shall not be treated as an arbitrage bond solely by reason of the fact that the proceeds are invested for a temporary period until needed for the purpose for which the obligation was issued, or that amounts in a reasonably required reserve or replacement fund (not to exceed 15 percent of the proceeds) are invested at a materially higher yield.

The Treasury Department has adopted extensive regulations (Treas. Reg., §§ 1.103-13, 1.103-14, and 1.103-15) providing complex rules for the application of the arbitrage bond statute. These rules include definitions of proceeds, major portion, materially higher yields, and temporary periods, as well as rules for allocating acquired obligations to particular bond issues and for computing yield. This memorandum will address only those aspects of the arbitrage regulations and other IRS rulings that are particularly relevant to the provisions of the Bill.

(a) Proceeds

Bond proceeds are the funds of the Fund that are subject to the arbitrage rules. However, not all Bond proceeds are treated identically, and some funds not received from the sale of Bonds are treated as

Bond proceeds under the arbitrage rules. Accordingly, it is important to determine what constitutes Bond proceeds and how they will be treated. The different types of proceeds covered by the arbitrage regulations are:

1. "Original proceeds" are net amounts (after payment of all expenses of issuing the obligations) received by the issuer as a result of the sale of bonds. Treas. Reg. § 1.103-13(b)(2)(i).
2. "Investment proceeds" are amounts received at any time by the issuer, such as interest and dividends, resulting from the investment or reinvestment of any proceeds of an issue. Amounts lose their character as investment proceeds of an issue (other than a refunding issue) if, within one year of receipt, such amounts are commingled for purposes of accounting for expenditures with substantial tax or

other substantial revenues from operations of the issuer. Treas. Reg. § 1.103-13(b)(2)(ii)(A).

3. "Sinking fund proceeds" are amounts not otherwise treated as proceeds that are held in any fund, to the extent that the issuer reasonably expects to use such fund to pay principal or interest on the issue. Amounts may be treated as sinking fund proceeds of an issue notwithstanding that the source of such amounts has no connection with the issuance of bonds. If a fund is pledged as security for bonds, amounts in such fund will be treated as sinking fund proceeds unless the issuer has such discretion over expenditures of such amounts that there is no reasonable assurance that such amounts will be available if needed to pay debt service on the bonds.

Amounts lose their character as sinking fund proceeds upon withdrawal. Treas. Reg. § 1.103-13 (g); Rev. Rul. 78-302, I.R.B. 1978-33, 6; Rev. Rul. 78-349, I.R.B. 1978-39, 10.

Under the above definitions, amounts in the Capital Reserve Account, Loss Reserve Account, Fire and Liability Reserve Account, and Municipal Bond Capital Reserve Account, as well as amounts held in the Fund itself (other than original and investment proceeds), would constitute "sinking fund proceeds." It is anticipated that this aspect of the regulations will be challenged in court, but the result of such challenge cannot be known at this time.

(b) Major Portion

The statute provides that an obligation is an arbitrage bond only if all or a "major portion" of the proceeds are expected to be invested at a materially higher yield. The regulations provide that a "major portion" is any amount in excess of 15 percent of the original face amount of the Bonds (unless original proceeds determined without regard to issuing expenses are less 98 percent of the face amount, in which event a

"major portion" is an amount in excess of 15 percent of such original proceeds). Treas. Reg. § 1.103-13(b)(1)(ii).

Any amount held in a reasonably required reserve or replacement fund is counted against this less-than-major-portion, commonly referred to as the "minor portion."

The result of the minor portion exception is that, other than in a refunding context, any combination of Bond proceeds or amounts treated as Bond proceeds (such as sinking fund proceeds), regardless of the fund or funds in which held, up to an amount equal to 15 percent of the original face amount of the Bonds (subject to the modification mentioned above) may be invested without yield restrictions. Amounts in excess of 15 percent are subject to investment yield restrictions. It should be pointed out that the regulations also provide that, if there is deliberate issuance of Bonds in an amount exceeding by more than 5 percent the amount reasonably expected to be required for a project or program, solely to allow the issuer to invest the excess at an unrestricted yield under the minor portion exception, all Bond proceeds are subject to investment yield restrictions. Treas. Reg. § 1.103-13(b)(5)(iv).

(c) Temporary Periods

Obligations are not arbitrage bonds if the proceeds are invested for a temporary period before being used for the project or program for which the obligations were issued. The regulations define several different temporary periods that are variously applicable at different times and for different types of proceeds. The potentially relevant temporary periods for Bonds of the Fund are as follows:

1. Original proceeds and investment proceeds are entitled to an initial temporary period of three years, beginning on the date of issue of the bonds, provided that three tests are met. These tests are referred to as the "expenditure test," the "time test," and the "due diligence test." It could be anticipated that the Fund would comply with these tests. Treas. Reg. § 1.103-14(b)(1), (2), (3), (4), and (5).
2. Investment proceeds are, in addition, entitled to a one-year

temporary period beginning on the date of receipt of such investment proceeds. Treas. Reg. § 1.103-14(b)(6).

3. Sinking fund proceeds are entitled to a 30-day temporary period, beginning on the date that the amount is deposited in the sinking fund, except that amounts deposited in a bona fide debt service fund, as defined in the regulations, are entitled to a 13-month temporary period and investment proceeds derived from sinking fund proceeds are entitled to a one-year temporary period. Treas. Reg. § 1.103-14(b)(8), (9), and (10).
4. Bond proceeds or amounts treated as bond proceeds held in a "revolving fund" are entitled to a 3-year temporary period, beginning on the date of de-

posit in such fund. A revolving fund is a fund that consists of receipts from the sale of property acquired with bond proceeds and payments of principal on program obligations, and that will be used for the acquisition of additional property or additional program obligations to the extent that suitable property or obligations are reasonably available. Treas. Reg. § 1.103-14(b)(11).

Under the above rules, amounts held in the (i) Capital Reserve Account, Loss Reserve Account, and Fire and Liability Reserve Account (together with amounts in the Allocated Reserve Account to the extent such amounts are transferred to any of the prior accounts), plus (ii) amounts in the Debt Service Reserve Account, plus (iii) amounts in the Municipal Bond Capital Reserve Account (together with amounts in the Unallocated Reserve Account to the extent transferred to such account) would be entitled to a 30-day temporary period whenever the total amount in all such accounts exceeded the 15 percent minor portion exemption, unless such

accounts constituted bona fide debt service funds. A bona fide debt service fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Treas. Reg. § 1.103-13(b)(12). In that event, amounts in such accounts would be entitled to a 13-month temporary period. Whether such accounts would constitute bona fide debt service funds would depend upon the actual operation of the Program.

Properly structured, the Fund itself could be made to qualify for the 3-year temporary period as a revolving fund.

(d) Yield Computations and Allocations

The regulations require that, in the case of Bonds, the computation of the yield on such obligations must be made separately for each issue except that a single computation may be made for two or more issues if, before the issuance of the last issue, the issuer establishes to the satisfaction of the IRS that a joint computation will not distort yield "or otherwise tend to defeat the purposes of section 103(c)." Treas. Reg. § 1.103-13(c)(1)(ii).

In the case of acquired obligations, yield must be computed separately with respect to each class of acquired obligations allocated to an issue. Treas. Reg. § 1.103-13(c)(1)(ii).

Where the issuer acquires obligations with the proceeds of several different issues of Bonds or from several types of proceeds, it must allocate such acquired obligations among the various issues and/or proceeds. Such allocations may be made at any time and under any reasonable method provided (i) all such allocations are consistent with one another at any particular time, (ii) obligations purchased with original proceeds of a refunding issue must be allocated to such proceeds, and obligations not purchased with original proceeds of a refunding issue may not be allocated to such proceeds, and (iii) obligations purchased with sinking fund proceeds must be allocated to such amounts. Treas. Reg. § 1.103-13(f).

A sinking fund for two or more issues must be allocated between the issues either (i) in proportion to their original face amounts, or (ii) according to the total amount of debt service on the issues that will actually be paid from the sinking fund. Treas. Reg. § 1.103-13(g)(6).

Under the above rules, unless the State seeks and obtains a ruling from the IRS each time it issues Bonds to the effect that it may compute yield jointly with all prior issues, the Fund will be required to

maintain accounts allocating particular loans to particular Bond issues in order to insure that the Fund is in compliance with investment yield restrictions.

(e) Materially Higher

Obligations are not arbitrage bonds unless the proceeds are invested in other obligations expected to have a "materially higher" yield. The regulations provide the following rules for the amount of arbitrage profit that can be earned on the proceeds of Bonds that are applicable in different circumstances:

1. Proceeds that are subject to yield restrictions may generally be invested at a yield one-eighth of one percentage point higher than the yield on the bonds. If the initial 3-year temporary period is waived, bond proceeds may be invested at a yield up to one-half of one percentage point higher than the yield on the bonds. Treas. Reg. § 1.103-13 (b) (5) (i).
2. Sinking fund proceeds that are subject to yield restrictions,

as well as proceeds of a deliberate overissuance, are effectively limited to a yield spread of zero. Treas. Reg. § 1.103-13(b)(5)(iv), (vi), and (vii).

3. Bond proceeds that are invested in "acquired program obligations" may be invested at a yield 1-1/2 percentage points higher than the yield on the bonds, or such higher amount as is necessary to pay expenses reasonably expected to be incurred as a direct result of administering the program (to the extent not payable with funds from other sources). Treas. Reg. § 1.103-13(b)(5)(viii), (ix), and (c)(5).

(f) Governmental Programs

The regulations define a governmental program as one which meets all of the following requirements:

1. The program involves the acquisition of acquired purpose obligations (which

are then referred to as "acquired program obligations");

2. At least 90 percent of all such obligations acquired under the program, by amount of cost outstanding, are evidences of loans to a substantial number of persons representing the general public, loans to exempt persons within the meaning of Section 103(b)(3), loans to provide housing and related facilities, or any combination of the foregoing;
3. At least 90 percent of all of the amounts received by the issuer with respect to the program obligations shall be used to pay debt service on its bonds, administrative costs of the program, or to make additional loans; and
4. Certain other procedural requirements are satisfied. Treas. Reg. § 1.103-13(h)(2).

In determining the yield on acquired program obligations, the issuer may exclude amounts received as reimbursement (or treated as reimbursement) of certain administrative costs. The administrative costs that are subject to this rule are the cost of issuing, carrying, or repaying Bonds to fund the program, the underwriter's spread, and the cost of purchasing, carrying, and selling or redeeming the program obligations. Treas. Reg. § 1.103-13(c)(5).

The application of the governmental program rules to the Fund will be discussed in more detail below.

(g) Reasonably Required Reserves

A reasonably required reserve or replacement fund may consist of one or more funds, or portions of funds, however labeled, derived from one or more sources. For example, a sinking fund might also be a reasonably required reserve or replacement fund. Treas. Reg. § 1.103-14(d)(1).

(h) Replacement Proceeds

The "replacement clause" of Section 103(c)(2)(B) is not covered by the regulations. However, the IRS has held that bond proceeds have "replaced" funds invested at a materially higher yield where a sinking fund for an issue is used to pay operating expenses

for a project, and operating revenues from the project are used to pay debt service on the bonds. Rev. Rul. 78-302. On the other hand, where a city established an investment fund to enhance its general credit rating, which fund was not specially pledged as security for its bonds, proceeds of general obligation bonds were not held to replace amounts contributed to the investment fund. In addition, the regulations implicitly acknowledge that endowment funds for institutions such as colleges, hospitals, and charities, held as part of the institution's permanent capital, do not result in bond proceeds being treated as "replacement proceeds." Treas. Reg. § 1.103-14(b)(4).

B. Other Applications to CSSSB 1

1. You have asked "Would current arbitrage regulations permit this fund to earn yield adequate to cover operating costs?" and "Is a loan program, as defined in this legislation, considered a 'governmental program' under current IRS regulations?"

If the proceeds of the Bonds issued by the Fund were reloaned under a complete pooling approach, there could be little doubt that the loan program should constitute a "governmental program" within the meaning of the arbitrage regulations. Under a complete pooling

approach, more than 90 percent (and probably 100 percent) of the loans would be to substantial numbers of persons representing the general public, loans to exempt persons (i.e., municipalities), and for housing units, and it would appear that the other requirements for a governmental program would be met. Because of the novelty of such a loan program, however, a ruling from the IRS on this point should be obtained.

Under a targeting approach, either complete or partial, the question is more difficult. In that circumstance, there is nothing in the regulations, published revenue rulings, or private letter rulings to indicate whether each series of Bonds that is targeted for a specific purpose would be considered separately or could nonetheless be "pooled" for purposes of determining whether the aggregation of all loans constituted a governmental program. If treated separately, some loans would not be treated as governmental program obligations (for example, individual loans under the small issue exemption, or one or a very few number of loans under the exempt activities exemption), while other loans probably would qualify (for example, housing loans, municipal loans, and large numbers of "leveraged" commercial loans). Although there is

nothing in the regulations to indicate that targeting for purposes of meeting the IDB requirements is incompatible with pooling for purposes of meeting the governmental program requirements, and while treating the entire program as a single program is certainly reasonable, there is simply no authority upon which to base a definitive answer to that question. A ruling from the IRS would be required.

Whether the entire loan program constitutes a single governmental program is significant because it determines the amount of yield spread that can be earned on the Fund's loans. If the loan program is treated as a single program, the Fund can earn an arbitrage profit up to 1-1/2 percent on its loans. Furthermore, in determining the yield on the loans, the Fund can exclude amounts representing repayments of certain administrative costs, such as costs of issuing Bonds. Whether after excluding such reimbursed costs, the possible 1.6 percent spread on the loans (cost of borrowing, plus 1 percent to Loss Reserve Account, plus optional 0.6 percent to Fire and Liability Reserve Account) would be within the 1-1/2 percent limit would require a detailed accounting.

The Fund could not charge a higher rate of

interest on its loans (i.e., higher than a 1-1/2 percent spread, after adjustment) if necessary to cover the costs of operating the program (e.g. staff expenses), because AS 45.96.180 provides that the Fund's operating budget is to be paid from other sources. See, Treas. Reg. § 1.103-13(b)(5)(ix).

If the loan program, or some part of it, is not a governmental program, those loans that are "outside" of the program will be limited to a yield spread of 1/8th of one percentage point and the costs attributable to that portion of the Fund, such as the costs of issuing and repaying Bonds to fund that portion, cannot be taken into account in determining the yield. If the one percent interest charge payable to the Loss Reserve Account and/or the 0.6 percent optional interest charge payable to the Fire and Liability Reserve Account were charged on such loans, the Bonds to which such loans were allocated would be arbitrage bonds and would not be tax exempt.

It should be pointed out that any excess yield problems can be solved under AS 45.96.420, which gives the Commissioner of Revenue the authority to reduce the interest rate on any loan to avoid Bonds being arbitrage bonds under Section 103(c).

2. You have asked "Under what conditions

would the Allocated Reserve Account, as proposed by this legislation, be considered 'an invested sinking fund?'"

Because the Capital Reserve Account, the Loss Reserve Account, and the Fire and Liability Reserve Account are pledged directly or indirectly as security for Bonds, and the State has no discretion over the expenditure of amounts held in such accounts unless there is a surplus, such accounts constitute sinking funds. However, to the extent that they do not exceed 15 percent of the original face amount of Bonds issued by the Fund and outstanding at any particular time (or such lesser amount determined under the 98 percent original proceeds rule), the three accounts mentioned will be within the minor portion exception and will not be subject to arbitrage yield restrictions.

The balance of the Allocated Reserve Account should not be treated as a sinking fund because the Legislature has the power to appropriate the excess over the amounts needed to fund the previously mentioned accounts (AS 45.96.120). Accordingly, there appears to be no reasonable assurance that such excess amounts held in the Allocated Reserve Account will be available if needed to pay debt service on the Bonds.

3. You have asked "What would be the impact of the replacement clause in Section 103(c)(2) have on an issue of this nature?"

The replacement clause in the arbitrage bond statute has no clear parameters. Treasury Regulations and IRS rulings clearly recognize that states, municipalities, and other entities need not spend every penny at their disposal before they may issue bonds. Under various circumstances, the IRS sanctions the issuance of bonds without risk of running afoul of the replacement clause notwithstanding the fact that the issuer maintains a permanent endowment fund or an investment account to enhance its general credit rating.

On the other hand, where a state or municipality, for example, issues bonds to finance general expenditures, while general revenues are invested, the replacement clause would have fairly clear application. That was the type of situation addressed in Rev. Rul. 78-302, the only known application of the replacement clause.

The IRS could raise the argument that amounts held in the Allocated Reserve Account, the Unallocated Reserve Account, and the Comprehensive Loan Program

Reserve Account should be used to fund the loan program before Bonds are issued for that purpose. It could even go so far as to argue that amounts held in the Permanent Fund should be used to make loans. However, amounts held in the various reserve accounts, and especially amounts held in the Permanent Fund, are more akin to an endowment fund, which is sanctioned by Treasury Regulations, than to the unusual application of funds presented in Rev. Rul. 78-302. Furthermore, although it is likely the IRS would agree with that proposition, because this point could have such a significant impact on the tax-exempt status of Bonds issued by the Fund (or the investment of Permanent Fund or other assets), a ruling confirming that point should be obtained.

This situation would be reversed if the Allocated Reserve Account and the other reserve accounts were the the sole source of payment of debt service on the Bonds, and loan repayments were used to make additional loans, whether that situation arose by operation of the statute or through the economics of the loan program. In that event, although application of the replacement clause would still be doubtful, the IRS would have a much better argument that the usual appli-

cation of funds had been reversed in order to produce an arbitrage profit. Under that set of circumstances, a ruling that the replacement clause was not applicable might well be required.

4. Two other significant arbitrage questions are raised by the Bill. First, AS 45.96.320 provides that the Municipal Bond Capital Reserve Account shall be funded from the Unallocated Reserve Account in an amount equal to 5 percent of municipal obligations guaranteed or purchased by the Fund. It is not clear whether this reserve account is in substitution of, or in addition to, the amounts in the Capital Reserve Account (or perhaps the Loss Reserve Account) that would otherwise be applicable to such municipal obligations. If the 5 percent held in the Municipal Bond Capital Reserve Account is in addition to the amounts held in all other reserve accounts, there is a substantial likelihood that a combination of the Capital Reserve Account, Municipal Bond Capital Reserve Account, Loss Reserve Account, and Fire and Liability Reserve Account will exceed 15 percent of the face amount of Bonds to which such municipal obligations are allocated, which would require that the excess be limited to a yield spread of essentially zero.

Second, AS 45.96.130 provides that the Debt Service Reserve Account is to be funded directly with Bond proceeds up to the maximum amount permitted under Section 103(c) of the Code. Although that amount should never be more than 5 percent of the Bonds (because amounts in the Capital Reserve Account, Loss Reserve Account, and Fire and Liability Reserve Account would probably always total more than 10 percent of the amount of Bonds outstanding), if the amount deposited from a Bond issue in the Debt Service Reserve Account exceeds 5 percent, and such amount does not constitute a reasonably required reserve or replacement fund, there may be deliberate overissuance, and proceeds of that issue would also be subject to an arbitrage yield spread of zero.

VI. PROCEDURAL ASPECTS

You have asked "Would IRS rule prior to enactment of this legislation or must its provisions become law first? Can multiple IRS rulings be obtained or must all the issues raised by this legislation be addressed in one ruling? If the latter, would future rulings be precluded? Must the fund be in actual operation before a ruling can be obtained?" and "What time frame could be anticipated as necessary to obtain

the IRS rulings advisable for a program of this nature, with particular reference to the 'complete pooling' concept and the joint yield computation on two or more issues?"

The answers of these questions require a discussion of several different aspects of IRS ruling procedure in general and Section 103 rulings in particular.

First, the announced policy of the IRS with respect to ruling requests generally is that it will rule on the tax consequences only of specific transactions actually proposed (or on completed transactions before a return reporting such transactions should be reported is filed). Rev. Proc. 72-9, 1972-1 C.B. 719. The corollary of this policy is that the IRS will not rule on the tax consequences of so-called hypothetical transactions. In the Section 103 area, this policy ordinarily requires that a ruling request be predicated upon a particular "proposed" issuance of bonds.

Although an argument may be made to the contrary, it appears reasonable to conclude there can be no "proposed" bond issuance pursuant to legislation that has not yet been enacted. Coupled with the fact that the IRS often invokes the hypothetical transaction rationale to decline to issue any ruling in areas it

wishes to avoid, there is a substantial risk that the IRS would not accept a ruling request with respect to Bonds to be issued by the Fund until the proposed legislation is enacted.

The IRS does, however, occasionally issue so-called special rulings. These are sometimes issued with respect to admittedly hypothetical transactions but where there is substantial public interest and there is no other practical way of determining the tax consequences of a particular situation. Such a special ruling might be obtainable here, if the IRS were convinced of the public importance of the question.

Second, if the hypothetical transaction objection is overcome (which is problematical), it is probable that the IRS would accept a ruling request prior to enactment of the legislation or actual operation of the Fund. Experience over the past several months indicates that the IRS is not requiring an effective bond resolution prior to acceptance of a ruling request.

Even in this circumstance, however, unless a special ruling could be obtained, the IRS will rule only on whether a particular series of proposed obligations will carry tax-exempt interest under Section 103. For

this reason, documents relating to one or more series of Bonds proposed to be issued by the Fund would have to be drafted. In connection with the drafting of such documents, the State Bond Committee (or other appropriate State officials) would have to choose among their various alternatives under the Bill, especially with respect to the pooling versus targeting question.

However, if the IRS issued an adverse ruling, and you desired to utilize the declaratory judgment procedure in the Tax Court to challenge the IRS determination, Section 7478 of the Code would require a bond resolution. S. Rep. 95-1263, 95th Cong., 2nd Sess., 151. Such a resolution must be adopted "in accordance with State ... law authorizing the issuance," which would require that the legislation be enacted.

Third, if the ruling request were submitted by the State, Rev. Proc. 79-4, I.R.B. 1979-1, 31, requires that every issue raised under Section 103 with respect to the particular proposed Bond issuance be covered in the ruling request. This does not necessarily mean that every Section 103 issue raised by the legislation must be covered, however, if, because of its structure, the proposed Bond issue does not raise some of the issues.

If someone other than the State (for example, an underwriter) were to request a ruling with respect to a particular series of proposed Bonds, Rev. Proc. 79-12, I.R.B. 1979-8, 49, permits fewer than all of the issues to be addressed. Declaratory relief in the Tax Court is unavailable under this procedure. Whether this would be a desirable procedure in this circumstance would depend upon the nature of the issues that were left unaddressed.

Fourth, one of the factors to bear in mind, because of the pendency of the various mortgage revenue bond bills, is that the IRS might be reluctant to issue any ruling involving Bonds all or a portion of the proceeds of which might be used for residential mortgage subsidies. Alternatively, it might issue a ruling under current law that would, of necessity, be superseded by enactment of one of the mortgage revenue bond bills. To the extent that the ruling was inconsistent with the subsequent legislation, the ruling could be worthless. In this connection, you should be aware that most of the mortgage subsidy bond bills have April, 1979 effective dates.

Fifth, a ruling on one prospective issue of Bonds does not preclude submitting requests on subsequent

proposed issues. However, if the first ruling was adverse, and the second ruling raised essentially the same issues, there would be little point to submitting the second request unless you had reason to believe that the IRS had changed its position or the State was prepared to litigate the issue(s) in the courts.

Sixth, the average time taken by the IRS to issue a fairly standard ruling is currently about three to four months. An initial ruling request raising several of the more difficult issues raised by the Bill, however, would likely not be viewed as a standard ruling request. Such a ruling request very likely would take up to six months (the maximum time permitted the IRS before the State could invoke the declaratory judgment procedure) or even longer (if the State is not in a position to go to court). Subsequent ruling requests, such as for permission to compute yield jointly, which do not raise substantial new issues, could probably be handled with relative dispatch.

The State could request expedited treatment. However, prior to enactment of the legislation, which has been pending now for almost a year, it is unlikely that you could persuade the IRS that such treatment was appropriate. In any event, the novelty of the

issues probably dictates extensive review within the IRS, which would preclude speedy issuance of a ruling.

Finally, current IRS policy is not to issue rulings granting blanket permission to compute yield jointly on all obligations issued or to be issued with respect to a particular program. Accordingly, for every new Bond issue proposed by the Fund for which a joint yield computation with prior issues would be desired, a ruling permitting such computation will have to be obtained separately.

VIII. THE FUTURE

1. You have asked "Do the IDB provisions of 1968 prohibit the activity contemplated by this legislation? Is it likely that enactment of this legislation would provoke retaliatory legislation on the part of the U.S. Treasury?"

Whether Revenue Bonds issued by the Fund will be tax exempt under the IDB provisions of Section 103(b) of the Code depends, as explained above, on the approach that the State Bond Committee adopts in the issuance of such Bonds. Bonds the proceeds of which are specifically targeted to qualifying expenditures likely could be structured to qualify for the exempt activities, industrial park, and small issue exemptions. Bonds the

proceeds of which were completely or partially pooled would not be IDBs if the ratio of noncommercial loans to commercial loans was at least three to one.

As to the likelihood of retaliation, one can only look to history. In response to increased use of tax-exempt bonds to finance commercial activities in the early and middle 1960s, the Treasury Department published proposed regulations dealing with industrial development bonds, denying them tax-exempt status. 33 Fed. Reg. 4,950. The Congress, while not permitting such regulations to become effective, enacted the IDB provisions having a similar effect. Revenue & Expenditure Control Act of 1968, P.L. 90-364, 90th Cong., 2nd Sess., § 107 (1968); S. Rep. No. 1014, 90th Cong., 2nd Sess. (1968-2 C.B. 790, 794-795).

Similarly, the IRS responded to increased requests for rulings on arbitrage bonds with a stated policy of refusing to grant such rulings. T.I.R. 840 (1966). States and municipalities continued to issue such bonds without rulings, and the Congress responded with the arbitrage bond provisions now contained in Section 103(c) of the Code. Tax Reform Act of 1969, P.L. 91-130, 91st Cong., 1st Sess., § 601(a) (1969); H. Rep. No. 91-413 (Part I), 91st Cong., 1st Sess. (1969-3 C.B. 200, 308-309).

In response to the substantial increase in single family mortgage subsidy bonds in 1978 and early 1979, several bills have been introduced to prohibit tax exemption for such bonds. These have the support of the Treasury Department, and some form of restriction on such bonds likely will become law this year.

The Treasury Department has been active on its own to prohibit real or perceived abuses of Section 103. The succession of amendments to the proposed arbitrage bond regulations, until finally adopted in mid-1979, was in large part due to the imaginative methods of issuers, underwriters, and others to avoid arbitrage restrictions. Also, where issuers have found methods of complying with the letter, but not the spirit, of the IDB regulations, the Treasury has changed the regulations to prohibit future abuses.

All of this should lead to the awareness that both the Congress and the Treasury Department are keenly aware of trends in the bond market and are responding ever more quickly with restrictive legislation or regulations to prohibit actual or apparent abuses. Applying this lesson to CSSSSB 1, if this legislation is enacted and successfully permits the raising of large amounts of capital at tax-exempt interest rates, to be reloaned to

commercial enterprises, two things must be recognized as distinct possibilities. First, the Treasury Department is likely to view it as outside the spirit of the IDB restrictions. Second, the omnibus loan program approach is likely to be copied in other states, thus magnifying any perceived "abuse." The combination of these two factors would undoubtedly produce calls for corrective legislation, which may or may not pass but certainly cannot be ignored.

2. You have asked "Would an increasing number of judicial decisions have an unsettling effect on the revenue bond legislation and/or regulatory climate? What is the value to a potential issuer of following customary practices?"

Prior to the adoption of the declaratory judgment procedure for state and municipal obligations as part of the Revenue Act of 1978, there were serious obstacles to bringing issues raised by Section 103 and the regulations thereunder into court. Because of the amounts of money involved, the traditional conservatism of the bond community, and the possible effects on the credit ratings of issuers of having outstanding bonds become taxable, issuers, underwriters, bond counsel, and investors were extremely reluctant to be involved

with a bond issuance that was contrary to published rules and regulations, or even where there might be a serious risk of litigation. For this reason, the vast majority of bond issues faithfully complied with published rules and regulations and known IRS policy. In the relatively few cases where bonds would be issued contrary to published rules and regulations, the chances of the unreported interest income being picked up on audits of individual taxpayers would be quite small. Accordingly, there are relatively few court decisions addressing issues that may arise under Section 103.

The new declaratory judgment procedure now permits issuers to go to court before bonds are issued, to seek a determination whether interest on such bonds will be exempt from tax. Although it cannot be known at this time how many issuers will utilize this procedure, some have announced their intention to challenge particular aspects of the Treasury Regulations, especially the arbitrage regulations. Others can be anticipated to follow suit. These cases will be decided by judges who have little or no familiarity with Section 103 and the oftentimes peculiar aspects of government finance. Lawyers representing the government are likely to be equally inexperienced in this area. Accordingly, as often happens

when judges delve into areas outside of their realm of knowledge, there are likely to be some surprising results in Section 103 cases, with ramifications extending beyond particular cases to issues that may not be raised or even thought of at the time.

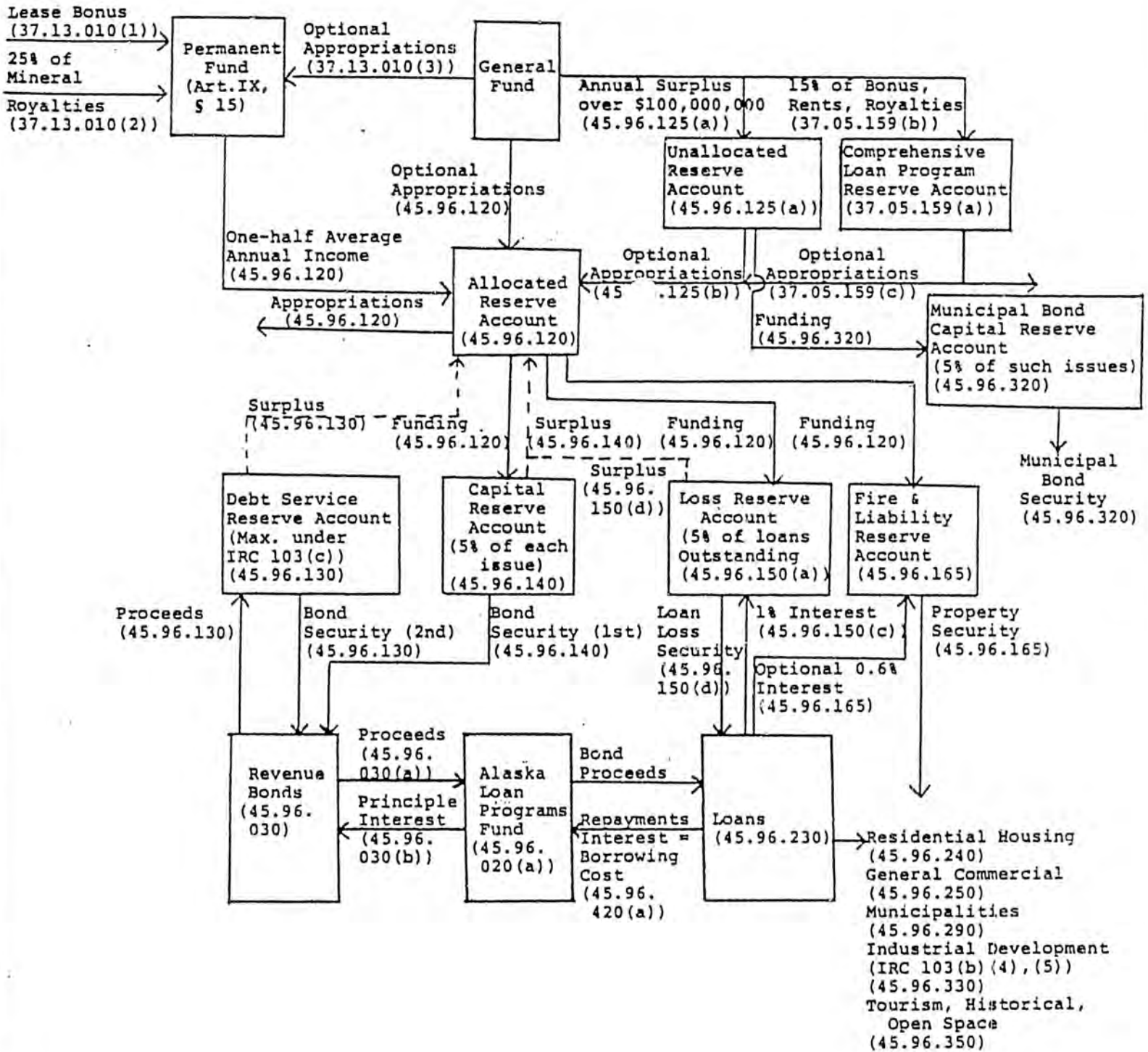
In addition, bond lawyers tend to take a rather technical view of Section 103 and the Treasury's regulations thereunder, strictly construing them against the government. In other areas of the tax law, however, lawyers and judges tend more broadly to apply doctrines such as "substance over form" to their analyses of whether a particular transaction complies with a particular statute or regulation. In Section 103 cases judges are likely to decide many cases in terms of the abuses that were sought to be prevented by the IDB and arbitrage provisions, which attitude may make a significant difference in close cases.

This may have a destabilizing effect on the law as it relates to tax-exempt bonds, which may in turn prompt adjustments by the Treasury to its regulations and policies as well as to prompt issuers and their advisors to make adjustments in the structure of bond transactions.

In this climate, the value of following

customary financial practices is difficult to assess. It is always better for one's transaction or practices to be materially similar to hundreds or thousands of others, first, because it is harder to pick a garden variety transaction out of a crowd, and second, because the Treasury Department is aware of the political risks of attempting to challenge a particular transaction when such a challenge could have enormous economic repercussions. Novelty invites scrutiny, and the consequences of challenge are relatively limited. By the same token, settled practices are generally those that have weathered the tests of time and administrative acceptance; changes proposed by the Treasury Department are almost invariably prospective in their application and often have generous transition periods. Judges also tend to be influenced by standard practice (especially in areas outside their expertise), a factor that can be quite important in deciding between two equally reasonable interpretations of an unclear statute or regulation.

On the other hand, there is certainly no prohibition against innovation. An omnibus loan program and permanent security fund that comply with both the letter and the spirit of the law and regulations should not be subject to serious challenge.



STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 21, 1979

SUBJECT: Permanent Fund
(Work Order No. 6582)

TO: Representative Hugh Malone

FROM: Kenneth E. Vassar, Legislative Counsel *KEV*

Enclosed is the bill you requested which duplicates SB 1.

Also enclosed is a memorandum delivered to me from Donna Spragg Pegues, our revisor of statutes, pointing out some technical and legal problems in the bill.

KEV:nem

Enclosures

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3870


LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

February 20, 1979

SUBJECT: The Permanent Fund Bill:
(Work Order No. 6582)

TO: Kenneth E. Vassar, Legislative Counsel

FROM: Donna Spragg Pegues, Revisor of Statutes 

This memorandum is written to outline:

1. Some problems of clarity encountered in my review where changes may need to be made;
2. A few legal problems with the bill.

I will discuss the last category first. Then I will simply move through the bill section by section outlining certain problems encountered.

The Title. You will recall that we discussed the problem involved in putting together the title for this bill which would:

1. Be confined to one subject; and
2. Express that subject,
(art II sec. 13, Alaska State Constitution).

In my opinion, the title does not meet the requirements of the Alaska constitution. But, if the legislation were challenged, the Alaska supreme court might well be more liberal than I seem to be. In the case of North Slope Borough v. Sohio Petroleum et. al, P.2d OPN. No. 1750 (October, 1978), the Court stated:

"[a]ll that is necessary is that the act should embrace some general subject; and by this is meant, merely, that all matters treated should fall under some one general idea, be so connected with or related to each other, either logically or in popular understanding, as to be parts of, or germane to, one general subject. Johnson v. Harrison, 50 N.W. 923, 924 (minn. 1891)."

Kenneth E. Vassar
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February 20, 1979

Perhaps here the "one general subject" required by the Court is the overall use of state revenues.

Local Hire. AS 45.96.450 establishes "employee practices" for a loan recipient who contracts for work to be done on the project financed by a loan. It requires that 90 to 95 percent Alaska resident hire on the project and calls for immediate foreclosure of the loan for a violation of the section. I think the constitutionality of this section is highly questionable in light of the United States Supreme Court opinion Hicklin v. Orbeck, (1978).

Confirmation of Members of Permanent Fund Corporation. AS 37.13.050 requires that the members appointed by the governor to the Permanent Fund Board of Trustees be confirmed by the legislature. It seems to me that this section is questionable under Bradner v. Hammond, 553 Pacific 21 (Alaska 1976). The Board of Trustees is not the head of a principal department under section 26 of the Alaska constitution. Likewise, it is not a regulatory or quasi-judicial board under section 26 of the Alaska constitution. However, I note that the legislature passed a similar provision when it enacted the Renewable Resource Corporation Act (Chapter 179, SLA 1979). I also note that there are other "independent" corporations in title 44 which include the same provision. The question is probably debatable and, none of the independent "corporations" has been challenged in court. I assume the legislature will want to let this one go through as drafted, but I did want to let you know of my concern about the constitutionality of the provision.

Removal of Board Members. In AS 37.13.070 the legislature is involved in the removal process. This is also a characteristic of the Alaska Renewable Resources Corporation which was enacted last session. The same comments apply as in the matter of confirmation.

Disposition of Permanent Fund Money. As you know, article IX, section 15 of the Alaska state constitution establishes the Alaska Permanent Fund. The final sentence of that section requires that "all income from the Permanent Fund shall be deposited in the General Fund unless otherwise provided by law."

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I do not see any disposition of income in this act. Is the income meant to go to the General Fund? Also, as I earlier noted, I do not observe any tie-in between money from the Permanent Fund and the resources of the loan fund. I assume none was intended in this version of the bill?

Perhaps the income tax rebate section was meant to be a disposition of the income of the Permanent Fund. However, that section does not actually require the disposition of any money. In effect, the section relating to taxes only allows for an increased credit when the income reaches a certain level. No actual disbursement of income is involved.

Unallocated Reserve Account. As you know, AS 45.96.125 sets up an "unallocated reserve account" which apparently consists of the General Fund unobligated balance. It is not clear to me just what is to happen to that balance (for example, is it subject to regular appropriation?) after it is swallowed up by this reserve account. The precise money flow here evades me. So, in your absence I took up the matter with Billy Berrier. He told me that he thought that the legislature intended to make the "unallocated reserve account" an account in the General Fund. However, in the context of the bill it reads as if it were an account in the Loan Fund. You may want to take up this question with Billy Berrier.

I will now go through the bill and list some of the technical questions encountered.

37.13.130(g)(1) I do not understand the exception in this subsection. I think it needs some redrafting and will be happy to discuss it with you.

37.13.130(i). In this subsection "secured loans" are mentioned which may be purchased under (h). But, (h) describes only "mortgages." Subsection (h) does not mention "secured loans." I find this somewhat confusing. It seems to me that only mortgages should be listed in (i). I have the same problem with AS 37.13.130(j).

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February 20, 1979

37.15.150(b). This is the section concerning the tax credit which we discussed earlier. It remains unclear. This is especially true because of the difficulty of tying a tax year into a fiscal year. The Permanent Fund is apparently on a fiscal year basis and the income tax is levied on a calendar year basis.

45.96.020(b). See the same language at 45.96.240 and 44.25.025. Because a salary and not a "range" is what is received by an individual, I think this section needs redrafting.

45.96.040. See the last sentence of this section where the "fund" is selling its assets. Here and there throughout the bill we find the "fund" doing particular things. David and I agree that a fund is inanimate and cannot actually do anything. Rather, things are done with the money in the fund. I also wonder who the "officer" is in 45.96.050. We have not had any officers of the fund identified at any point in the bill.

45.96.240. In the last line of this section the phrase "business practice" is used. I am not certain exactly what this means.

45.96.300. As I noted to you earlier, I have had some difficulty with this section on "public purpose" loans. I still believe that (a)(1) says the same thing as (a) in general, since both kinds of bonds are included in both places. It seems to me that this is one of the matters that should be taken up with the sponsor. Let's discuss. This section could also probably use some reworking for clarity.

As for (b), I cannot tell if this includes the municipalities which are already included in (a) or not. What do you think? I am just not certain what they are trying to do through these sections.

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February 20, 1979

As for (e) - is the "major" part 51 percent? I am not sure what they mean by "major" part. Also, I am not certain whether (e) limits all "public purpose" loans under 45.96.300 or just some of the subsections. What do you think?

45.96.440(c). I believe this subsection needs to be tied back to 45.96.430(b) as to which fund pays this additional difference.

45.96.470(c). I believe there is a statute setting the rate of interest. It should be cited here.

37.10.070(a)(14). I wonder how the state can purchase a "trading practice?"

45.25.025(c). The exception here is unclear to me and I think the subsection should be redrafted for clarity. I will, of course, be glad to explain my problem with it.

A few other notes follow.

David pointed out that he thinks we should change the system so that section numbers change on a count of five rather than ten. In other words, AS 45.96.050 would follow AS 45.96.050. This gives more room for additions to the statutes. I do not think it is necessary to attempt to change this bill to conform with this new approach, but I did want to call it to your attention for future reference.

There is a section in the bill which provides that the legislature has power to pass on the executive branch investment policy. That policy can be rejected by the legislature. I note that the issue of the legislature's power to annul an executive action is now before the Alaska Supreme Court and may be decided sometime during the next session. It is something to think about as this bill proceeds.

I also note that almost all of the provisions for loans in the bill have residence requirements and in one section the limitations on the amount of loans is tied to length of residence. These sections may at some point be subject to challenge because of the durational residence requirements.

DSP:nem

Introduced: 2/23/79
Referred: Commerce and
Finance

1 IN THE SENATE

BY HOHMAN

2 SPONSOR SUBSTITUTE FOR SENATE BILL NO. 1
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

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

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

11 * Section 1. AS 24.20.151 is amended to read:

12 Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTAB-
13 LISHED. The Legislative Budget and Audit Committee is established as a
14 permanent interim committee of the legislature. The establishment of
15 the committee recognizes the need of the legislature for full-time
16 technical assistance in accomplishing the fiscal analysis, budget re-
17 view, investment oversight and post-audit functions.

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

19 (8) make recommendations concerning the structure and operat-
20 ing practices of all agencies of the state which perform lending or
21 investment functions;

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

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

26 Sec. 24.20.321. INVESTMENT OVERSIGHT DIVISION. The investment
27 oversight division is established as a permanent staff agency respon-
28 sible to the Legislative Budget and Audit Committee for the performance
29 of oversight and review functions to provide information on the policy

1 and performance of all agencies of the state which perform lending or
2 investment functions.

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

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

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

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

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

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

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

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

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

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

3 (2) alternative investment policy for the general fund sur-
4 plus.

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

6 CHAPTER 13. ALASKA PERMANENT FUND.

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

10 (1) one hundred per cent of mineral lease bonuses after
11 deduction of amounts allocated

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

14 (B) in AS 37.11.020 to the Alaska renewable resources
15 development fund;

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

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

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

23 Sec. 37.13.020. INVESTMENT OF THE PERMANENT FUND. (a) The
24 prudent-man rule is applicable to the management and investment of
25 permanent fund assets. The prudent-man rule as applied to investments
26 of the permanent fund means that in making investments the commissioner
27 of revenue shall exercise the judgment and care under the circumstances
28 then prevailing which an institutional investor of ordinary prudence,
29 discretion, and intelligence exercises in the management of large in-

1 vestments entrusted to it not in regard to speculation but in regard to
2 the permanent disposition of funds, considering the probable income from
3 them as well as probable safety of capital.

4 (b) The permanent fund assets may only be used for income-pro-
5 ducing investments.

6 (c) The commissioner shall seek to maintain a reasonable diversi-
7 fication among corporation investments unless under the circumstances it
8 is clearly prudent not to do so.

9 (d) The commissioner shall submit long-range and quarterly invest-
10 ment reports to the Legislative Budget and Audit Committee.

11 (e) Subject to (a) and (b) of this section, the commissioner may
12 invest permanent fund assets in obligations of, or obligations insured
13 or guaranteed by, the United States or agencies or instrumentalities of
14 the United States; corporate securities which under the Securities Act
15 of 1933 are freely marketable; and short-term investments which meet the
16 requirements of (a) and (b) of this section except for the term of the
17 investments.

18 (1) No portion of the assets of the permanent fund may be
19 used in the purchase of stock of a corporation which is not paying
20 dividends on that stock in cash at the time of purchase; nor in the
21 purchase of bonds of a corporation, upon which any regular interest
22 payment has been defaulted within five years before purchase, except
23 bonds never in default but which have been outstanding for less than
24 five years.

25 (2) No portion of the assets of the permanent fund may be
26 used in the purchase of stock if immediately following the purchase the
27 proportionate market value of all stocks held by the fund would exceed
28 30 per cent of the assets of the fund.

29 (f) Subject to (a) and (b) of this section, the commissioner may

1 invest permanent fund assets in

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

6 (g) To qualify as a mortgage or secured loan which may be pur-
7 chased by the commissioner under (h) of this section, the mortgage or
8 secured loan shall

- 9 (1) be secured by real estate in the state;
10 (2) have as a mortgagor an Alaska resident or a corporation
11 in which at least 60 per cent of the stock is owned by Alaska residents;
12 (3) be certified by the originating financial institution
13 that the loan being sold has been made in compliance with law and that
14 liens supporting the loan have been perfected;
15 (4) have no initial closing fees or service fees which exceed
16 one-half of one per cent, excluding closing costs.

17 (h) The commissioner may purchase loans provided for in (f) of
18 this section only from financial institutions which are operating under
19 the national banking laws, federal savings and loan laws, or under the
20 provisions of AS 06.05, AS 06.15, AS 06.25 or AS 06.30.

21 (i) The commissioner shall establish and from time to time as
22 necessary modify guidelines for the investment of permanent fund assets.
23 Before adoption of any investment guidelines, the guidelines shall be
24 reported to the Legislative Budget and Audit Committee for review and
25 comment. Nothing in this section may be interpreted to preclude in-
26 state investments that have a risk level and expected yield comparable
27 to alternative investment opportunities.

28 Sec. 37.13.030. GAINS AND LOSSES. At the end of each fiscal year,
29 the total amount of losses on the sales of securities, not offset by

1 gains on the sales of securities during that year, shall be computed,
2 with a portion of these losses to be deducted each fiscal year from the
3 interest and dividend income and the resulting amount of interest and
4 dividend income added to the principal of the fund. Losses taken on the
5 sales of bonds shall be accumulated over a period equal to the average
6 remaining life of the bonds sold, and losses taken on the sales of
7 stocks shall be accumulated within a period of five years, unless these
8 losses are offset by gains on future sales of securities. In any fiscal
9 year in which the gains on the sales of securities exceed the losses on
10 the sales of securities, the excess shall be added to the principal of
11 the fund.

12 Sec. 37.13.040. INCOME. The interest and dividends received in a
13 year are the income of the permanent fund for that year. The income
14 available for allocation to the allocated reserve account established in
15 AS 45.96.120 shall be determined on an averaging basis. For the first
16 five years, income will be the simple averaging of the annual current
17 return at cost. Subsequently, there will be a moving average current
18 return, in which the latest fiscal year will replace the oldest year.
19 The income available for allocation will be the lesser of the latest
20 fiscal year's income, or the average annual current income for the past
21 five fiscal years of the fund at cost, and after adjustment for capital
22 losses charged to that fiscal year.

23 Sec. 37.13.050. BUDGET. The operating budget is from the general
24 fund unless the legislature specifically appropriates from the unallo-
25 cated reserve and is subject to the Executive Budget Act (AS 37.07).

26 Sec. 37.13.060. ACCOUNTING. Accounting for the fund shall be
27 provided by the Department of Administration. Reports shall be made by
28 that department to the Department of Revenue, the Department of Commerce
29 and Economic Development, and the Legislative Budget and Audit Committee

1 on at least a monthly basis. These reports shall include an itemization
2 of each loan which has been in default for a period in excess of 30 days
3 and the measures taken for each to insure compliance with terms and
4 conditions of the loan. The Legislative Budget and Audit Committee
5 shall provide quarterly reports to the legislature summarizing the
6 information it receives under this section and under AS 37.13.020(d) and
7 (i) and including comments and suggestions the committee determines to
8 be of interest to the legislature relating to the administration of the
9 fund.

10 Sec. 37.13.070. REPORTS AND PUBLICATIONS. No later than Septem-
11 ber 30 of each year, the commissioner of revenue shall publish a report
12 for distribution to the governor, legislature, and the public. The
13 report shall be written in easily understandable language. The report
14 must include financial statements audited by the legislative audit
15 division, a statement of the amount of money received by the permanent
16 fund from each investment during the period covered, a statement of fund
17 investments including an appraisal at market value, a description of
18 fund investment activity during the period covered by the report, an
19 examination of the impact of the investment criteria of this chapter on
20 the fund portfolio with recommendations for any needed changes and any
21 other information the commissioner believes would be of interest to the
22 governor, the legislature, and the public. The annual income statement
23 and balance sheet of the fund shall be published in at least one news-
24 paper in each judicial district. The income statement and balance sheet
25 for the two fiscal years preceding the publication of the election
26 pamphlet under AS 15.57 shall be included in that pamphlet.

27 * Sec. 6. AS 45 is amended by adding a new chapter to read:

28 CHAPTER 96. ALASKA LOAN PROGRAMS FUND.

29 Sec. 45.96.010. PURPOSE. Efficient use of the capital resources

1 of the state will be promoted by creating a single loan fund to provide
2 a single source from which potential users can acquire a state loan and
3 obtain information about existing federal or private loan programs which
4 will better serve the needs of the user or which will complement a
5 proposed state loan. A single state source of lending will provide
6 strong assurance of repayment of its loans and thereby lower the cost of
7 borrowing to the state. The purpose of the loan programs fund is to
8 provide the lowest possible interest costs to Alaska borrowers con-
9 sistent with sound financial practices and to make available to all
10 sectors of the Alaska economy loans including long-term financing. A
11 strong, single loan source, by being available to secure interest rates
12 and terms better than those available to loan funds limited in size for
13 a specific purpose, will make a significant contribution to lowering
14 costs of living for Alaska residents and costs of operations in the
15 private and public sector.

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

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

29 (c) The division of Alaska loan programs shall manage the loan

1 programs fund in accordance with AS 45.96.010 - 45.96.490.

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

5 (b) The principal and interest on these bonds or bond anticipation
6 notes are payable from assets of the fund. Bond anticipation notes may
7 be payable from the proceeds of the sale of bonds or from the proceeds
8 of sale of other bond anticipation notes or, if bond or bond anticipa-
9 tion note proceeds are not available, the bond anticipation notes may be
10 paid from other assets of the fund. Bonds or bond anticipation notes
11 may also be secured by a pledge of a grant or contribution from the
12 federal or state government, a corporation, association, institution or
13 person, or a pledge of money, income, or revenues of the fund from any
14 source.

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

1 bonds or bond anticipation notes when the definitive bonds or bond
2 anticipation notes have been executed and are available for delivery.

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

5 (e) If an officer whose actual or facsimile signature appears on
6 any bonds or notes or coupons attached to them ceases to be an officer
7 before the delivery of the bond, note or coupon, his signature is valid
8 as if he had remained in office until delivery.

9 (f) In authorizing or issuing bonds or bond anticipation notes,
10 the state bond committee may, with holders of the bonds or bond antici-
11 pation notes, make covenants as may be necessary or desirable, to better
12 secure bonds or notes or which, in the discretion of the committee, will
13 tend to make bonds or notes more marketable and shall, for each issue,
14 create a principal and interest account for repayment of the principal
15 and interest of that issue.

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

27 Sec. 45.96.050. REMEDIES. A holder of obligations issued under
28 the provisions of this chapter or coupons attached to them if not re-
29 stricted by the resolution, either at law or in equity, may enforce all

1 rights granted under the coupons or under any other contract executed by
2 the fund under this chapter, and may enforce and compel the performance
3 of all duties required by this chapter to be performed by the fund or by
4 an officer of it.

5 Sec. 45.96.060. NEGOTIABLE INSTRUMENTS. All obligations and
6 interest coupons attached to the obligations are negotiable instruments
7 under the laws of this state, subject only to applicable registration
8 provisions.

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

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

1 (b) Refunding obligations may be sold or exchanged for outstanding
2 obligations issued under this chapter. If sold, the proceeds may be
3 applied, in addition to other authorized purposes, to the purchase,
4 redemption or payment of the outstanding obligations. Pending the
5 application of the proceeds of refunding obligations, with any other
6 available funds, to the payment of the principal (accrued interest and
7 any redemption premium on the obligations being refunded, and if so
8 provided or permitted in the authorization for issuance of the refunding
9 obligations, to the payment of any interest on the refunding obligations
10 and any expenses in connection with the refunding), the proceeds may be
11 invested in direct obligations of, or obligations the principal of and
12 the interest on which are unconditionally guaranteed by, the United
13 States of America which mature or which will be subject to redemption,
14 at the option of the holders of them, not later than the respective
15 dates when the proceeds, together with the interest accruing on them,
16 will be required for the purposes intended.

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

26 Sec. 45.96.100. TAX EXEMPTION. All property of the fund is public
27 property devoted to an essential public and governmental function and
28 purpose and is exempt from all taxes of the state or a political sub-
29 division of the state. All bonds issued under this chapter are issued

1 by a body corporate and public of this state and for an essential public
2 and governmental purpose, and the bond and the interest and income on
3 and from the bonds and all income of the fund are exempt from taxation
4 except for transfer, inheritance and estate taxes.

5 Sec. 45.96.110. SALE OF BONDS. (a) The state bond committee may
6 sell bonds at public or private sale until July 1, 1984. After July 1,
7 1984, the state bond committee may sell bonds only at public sale.

8 (b) Before selling an issue or series of bonds at public sale, the
9 state bond committee shall give notice inviting sealed bids in such
10 manner as it may prescribe. If satisfactory bids are received, the
11 bonds offered for sale shall be awarded to the highest responsible
12 bidder. If the state bond committee determines that the bids received
13 are not satisfactory as to price or responsibility of the bidders, it
14 may reject all bids received.

15 Sec. 45.96.120. ALLOCATED RESERVE ACCOUNT. For the purpose of
16 securing obligations of the fund, a special account within the general
17 fund called the allocated reserve account is established. The income
18 from the Alaska permanent fund established in AS 37.13.010 is allocated
19 to the account. Other money may be appropriated to the account. The
20 amounts necessary to fund the capital reserve account established under
21 AS 45.96.140, the fire insurance and liability reserve account under AS
22 45.96.160, and the loss reserve account under AS 45.96.150 are allocated
23 to those accounts from the allocated reserve account. All other expen-
24 ditures from the allocated reserve account shall be in accordance with
25 annual appropriations.

26 Sec. 45.96.125. UNALLOCATED RESERVE ACCOUNT. (a) For the purpose
27 of securing obligations of the fund, a special account within the general
28 fund called the unallocated reserve account is established. The un-
29 allocated reserve account consists of any amounts remaining in the

1 general fund at the end of a fiscal year which have not been obligated.

2 (b) The legislature may, by appropriation, fund the allocated
3 reserve account created in AS 45.96.120 from funds in the unallocated
4 reserve account.

5 Sec. 45.96.130. DEBT SERVICE RESERVE ACCOUNT. For the purpose of
6 securing each issue of its obligations, the fund shall establish a
7 special account called the debt service reserve account and shall pay
8 into the account from the proceeds of the sale of that issue of its
9 obligations the maximum amount permissible under federal law and regu-
10 lations for tax exempt obligations which may be invested without limi-
11 tation as to yield. All money held in a debt service reserve account
12 may be used as required, when money is not available from the principal
13 and interest account or the capital reserve account, solely for (1) the
14 payment of the principal of obligations, (2) the purchase or redemption
15 of obligations, (3) the payment of interest on obligations, or (4) the
16 payment of any redemption premium required to be paid when those obli-
17 gations are redeemed before maturity. Any amount remaining in a debt
18 service reserve account when the issue the account secures is fully
19 retired shall be paid to the allocated reserve account.

20 Sec. 45.96.140. CAPITAL RESERVE ACCOUNT. For the purpose of se-
21 curing each issue of its obligations, the fund shall establish a special
22 account called the capital reserve account. The commissioner of revenue
23 shall pay into the capital reserve account from the allocated reserve
24 account upon establishment an amount equal to five per cent of the
25 principal amount of the obligations issued and sold and upon subsequent
26 sales, if any, of obligations of the issue secured, an additional amount
27 equal to five per cent of the principal amount of the obligations sold.
28 At the end of each fiscal year the commissioner of revenue shall with-
29 draw from each capital reserve account and pay to the allocated reserve

1 account any amount in the capital reserve account in excess of five per
2 cent of the remaining principal balance of the obligations secured or,
3 if the amount in the account is less than five per cent of the remaining
4 principal balance of the obligations secured, pay into the account from
5 the allocated reserve account the amount necessary to bring the reserve
6 to five per cent. All money held in a capital reserve account may be
7 used as required, when money is not available from the principal and
8 interest account, solely for (1) the payment of the principal of obliga-
9 tions, (2) the purchase or redemption of obligations, (3) the payment of
10 interest on obligations or (4) the payment of any redemption premium
11 required to be paid when those obligations are redeemed before maturity.
12 Income or interest earned by a capital reserve account shall be paid to
13 the allocated reserve account established by AS 45.96.120. Any amount
14 remaining in a capital reserve account when the issue the account se-
15 cures is fully retired shall be paid to the allocated reserve account.

16 Sec. 45.96.150. LOSS RESERVE ACCOUNT. (a) For the purpose of
17 protecting the financial integrity of the fund, a special account called
18 the loss reserve account is established. The commissioner of revenue
19 shall pay into the loss reserve account from the allocated reserve
20 account an amount equal to five per cent of the estimated total amount
21 of all loans to be made by the fund during the first fiscal year of
22 operation. At the first of the succeeding fiscal year and each fiscal
23 year thereafter, the commissioner shall pay into the loss reserve
24 account from the allocated reserve account the amount necessary to bring
25 the balance of the loss reserve account to five per cent of the total
26 amount of loans projected to be outstanding during that fiscal year.

27 (b) If during the fiscal year the total amount of loans outstand-
28 ing exceeds the amount projected to be outstanding, the commissioner of
29 revenue shall pay into the loss reserve account from the allocated

1 reserve account the amount needed to bring the balance of the loss
2 reserve account to five per cent of the amount of loans outstanding.

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

6 (d) Money in the loss reserve account may only be used for losses
7 realized from loans made under this chapter, except when, at the begin-
8 ning of a fiscal year, the balance of the loss reserve account exceeds
9 five per cent of the remaining principal balance of the total amount of
10 loans projected to be outstanding during the fiscal year, the amount in
11 excess of five per cent shall be paid to the allocated reserve account
12 until all amounts paid to the loss reserve account and the capital
13 reserve account have been paid and then to the earned income account of
14 the loan programs fund.

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

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

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

28 (2) obligations secured by reserves paid in by the United
29 States or agencies or instrumentalities of the United States or obliga-

1 tions of corporations in which the United States is a shareholder or
2 member; or

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

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

7 Sec. 45.96.180. INVESTMENTS. (a) All investments of the fund
8 cash balances and of reserves for specific bond issues or statutorily
9 required reserves are managed for the fund by the director of the divi-
10 sion of treasury in the Department of Revenue. The director shall
11 determine investment policy and manage the investments of the fund under
12 the same criteria applicable to other state investments he manages.

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

16 (1) a summary of long-range and short-term investment policy;
17 (2) a list of investments made during the previous month;
18 (3) an evaluation of the performance of investments made;
19 (4) other information requested by the budget and audit
20 committee.

21 Sec. 45.96.190. BUDGET. The operating budget is by appropriation
22 from the general fund unless the legislature specifically appropriates
23 from the unallocated reserve account. The operating budget is subject
24 to the Executive Budget Act (AS 37.07).

25 Sec. 45.96.200. ACCOUNTING AND REPORTS. Accounting for the fund
26 shall be provided by the Department of Administration. Reports shall be
27 made by that department to the Department of Revenue, the Department of
28 Commerce and Economic Development, and the Legislative Budget and Audit
29 Committee at least once a month. These reports shall include an itemi-

1 zation of each loan which has been in default for a period in excess of
2 30 days and the measures taken for each to insure compliance with terms
3 and conditions of the loan. The Legislative Budget and Audit Committee
4 shall provide quarterly reports to the legislature summarizing the
5 information it receives under this section and under AS 45.96.180(b) and
6 45.96.240(b) and including comments and suggestions the committee deter-
7 mines to be of interest to the legislature relating to the administra-
8 tion of the loan program. Other reports shall be made as prescribed by
9 the Department of Commerce and Economic Development.

10 Sec. 45.96.210. LOAN PROCEDURES. (a) The director of the divi-
11 sion of Alaska loan programs shall establish district loan offices in
12 Juneau, Fairbanks, and Anchorage and may establish other loan offices as
13 necessary which shall be headed by district directors. The office shall
14 provide information concerning the loan programs under this chapter,
15 other state loan programs, state grant programs, federal loan or grant
16 programs, and, to the extent feasible, private loans.

17 (b) Each district loan office shall include a veterans' loans
18 section. The veterans' loans section shall process loan applications
19 from applicants who meet the eligibility requirement of AS 45.96.440.
20 The veterans' loan section shall also provide information and assistance
21 to veterans relating to loan applications under this chapter, other
22 state loan programs or state grant programs, federal loan or grant
23 programs, and to the extent feasible, private loans.

24 Sec. 45.96.220. ALASKA LOAN PROGRAMS EVALUATION COMMITTEE. (a)
25 There is established in the Department of Commerce and Economic De-
26 velopment the Alaska Loan Programs Evaluation Committee consisting of
27 the directors, or their designees, of the following divisions: (1) the
28 division of economic enterprises in the Department of Commerce and
29 Economic Development, (2) the division of collections in the Department

1 of Revenue, and (3) the division of Alaska loan programs in the De-
2 partment of Commerce and Economic Development.

3 (b) The committee shall notify recipients of loans under the pro-
4 visions of this chapter who have been delinquent in their loan repay-
5 ments for a period in excess of 30 days. Upon notification of delin-
6 quency, the borrower may request reevaluation and technical assistance
7 from the committee. If the borrower requests reevaluation, the com-
8 mittee shall consider the terms and conditions of the loan as well as
9 all other pertinent information to determine whether there are feasible
10 alternative terms and conditions which will protect the interest of the
11 state and prevent the default of the loan.

12 (c) In performing the duties described in (b) of this section, the
13 committee shall have access to all nonconfidential records, data, in-
14 formation, and statistics of all departments, boards, commissions,
15 agencies, and institutions of the state. The committee shall also have
16 access to any records or other information of the borrower which are
17 pertinent to its investigation. Failure on the part of the borrower to
18 provide the records or information shall be grounds for refusal to
19 reevaluate.

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

24 Sec. 45.96.240. COLLECTIONS; DIVISION OF COLLECTIONS. (a) There
25 is established within the Department of Revenue the division of col-
26 lections. The director of the division is in the classified service
27 under AS 39.25 and shall receive an annual salary within range 27 of the
28 salary schedule established in AS 39.27.011 or within one range below
29 the range on which the highest paid deputy commissioner in the depart-

1 ment is paid if that range is higher than range 27. In order to qualify
2 for the position of director, a person must be an attorney licensed to
3 practice in this state with at least four years of practice in business
4 law and business practices.

5 (b) If a borrower who has received notification of delinquency in
6 accordance with AS 45.96.220 does not request reevaluation, or if the
7 evaluation committee determines that renegotiation of the existing terms
8 and conditions is not feasible or justified, and the loan is not brought
9 current within 30 days after the notification of delinquency is sent,
10 the loan shall be transferred to the loss reserve account and trans-
11 mitted for collection to the division of collections. A monthly report
12 of the status of the collection effort shall be made to the Legislative
13 Budget and Audit Committee. The total principal and interest due shall
14 be transferred from the loss reserve account to the fund upon assignment
15 of each loan.

16 Sec. 45.96.250. LOAN PURPOSES. Loans may be made from the fund
17 for residential housing, commercial purposes, public purposes, and
18 education.

19 Sec. 45.96.260. RESIDENTIAL HOUSING. In addition to other powers
20 granted in this chapter, the director of the division of Alaska loan
21 programs may, for the purpose of providing housing for persons who meet
22 the eligibility requirements of AS 45.96.370,

23 (1) make or participate in the making of construction loans
24 from the fund to sponsors, developers, and builders of residential
25 housing;

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

29 (3) purchase or participate in the purchase of mortgage loans

1 made from the fund to sponsors, developers, builders, owners, and pur-
2 chasers of residential housing;

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

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

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

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

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

29 (1) individual farmers, homesteaders, and partnerships or

1 corporations composed of farmers and homesteaders, for development of
2 farms, storage and processing of farm produce, livestock, machinery and
3 equipment, and farm irrigation;

4 (2) individual commercial fishermen who have had a commercial
5 fishing license for at least one of the previous five years, for the
6 repair, restoration or upgrading of existing vessels and gear and for
7 the purchase of entry permits and gear and the construction and purchase
8 of vessels; loans made under this paragraph are subject to the provi-
9 sions of AS 45.96.295 and 45.96.297;

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

16 (4) develop, rehabilitate, and expand business activities in
17 the state;

18 (5) child care facilities in the state to comply with the
19 appropriate licensing standards for child care facilities or to comply
20 with the requirements for certification by the Department of Education
21 subject to the following conditions:

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

25 (B) the applicant shall demonstrate that the proposed
26 loan will enable the child care facility to obtain a license from
27 the Department of Health and Social Services or a certificate from
28 the Department of Education;

29 (C) the applicant shall apply to the Department of

1 Community and Regional Affairs for and receive a certificate of
2 need;

3 (6) small businesses to acquire, finance or refinance or
4 equip businesses;

5 (7) loggers and forest products manufacturers and processors
6 for logging operations and equipment, forest products manufacturing or
7 processing plants, and for working capital for logging operations and
8 forest products manufacturing or processing;

9 (8) other businesses for equipment and operations related to
10 harvesting, manufacturing and processing other renewable or nonrenewable
11 resources in the state.

12 (b) Notwithstanding the provisions of AS 45.96.410 and 45.96.420,
13 a loan under (a)(2) of this section may not run longer than 15 years or
14 exceed 90 per cent of the appraised value of the collateral used to
15 secure the loan.

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

17 (a) The Department of Community and Regional Affairs shall determine
18 whether to award a certificate of need to child care facilities applying
19 for a loan under AS 45.96.270(5) on the basis of the following criteria:

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

22 (2) the number of children in the geographic area who need
23 child care;

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

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

28 (b) The Department of Community and Regional Affairs shall submit
29 its decision and the reasons for it to the applicant within 60 days of

1 receipt of the application.

2 Sec. 45.96.295. LOANS MADE TO COMMERCIAL FISHERMEN. A loan under
3 AS 45.96.270(2) shall be secured by a first lien and appropriate
4 security agreements, except that a lien in favor of the state is not
5 required for loans guaranteed fully by the federal government under the
6 Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271 - 1279b; 86
7 Stat. 909), as amended. In the case of a security agreement given to
8 secure a loan made under AS 45.96.270(2) and covering a vessel docu-
9 mented under the laws of the United States and so long as the Ship
10 Mortgage Act of 1920 (46 U.S.C. secs. 911 - 984; 41 Stat. 1000), as
11 amended, and the Shipping Act of 1916 (46 U.S.C. secs. 801 - 842; 39
12 Stat. 728), as amended, remain ambiguous with respect to whether or not
13 a state or state agency qualifies as a citizen of the United States for
14 purposes of those Acts, the first lien requirement of this section may
15 be satisfied by the recordation and endorsement of a first preferred
16 ship mortgage under the Ship Mortgage Act of 1920, and by perfection of
17 a security interest under the Uniform Commercial Code - Secured Trans-
18 actions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of
19 Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the
20 department of the interest in a vessel documented under the laws of the
21 United States. In the case of a security agreement given to secure a
22 loan made under AS 45.96.270(2) and covering a vessel documented under
23 the laws of the United States, the first lien requirement of this sec-
24 tion may also be satisfied by use of a trust deed and bond issue under
25 it, if the trustee is a citizen of the United States and obtains a first
26 preferred ship mortgage on the vessel under the Ship Mortgage Act of
27 1920, and the approval of the Secretary of Commerce is obtained under 46
28 U.S.C. secs. 839 and 961 for the transfer of the bond or bonds to the
29 department if the trustee is not a trustee approved by the Secretary of

1 Commerce under 46 U.S.C. secs. 808, 835 and 961.

2 Sec. 45.96.297. LOANS FOR PURCHASE OF LIMITED ENTRY PERMITS. (a)
3 Loans under AS 45.96.270(2) for the purchase of a limited entry permit
4 may be made only upon certification by the Alaska Commercial Fisheries
5 Entry Commission (AS 16.43.020) that the fisherman is a person who
6 qualifies as a transferee for the permit under AS 16.43 and the regula-
7 tions adopted by the commission.

8 (b) Upon approval by the director of the division of Alaska loan
9 programs, the permit to be purchased may be pledged as security for a
10 loan under (a) of this section, if

11 (1) the certificate for the pledged permit lists the director
12 as the legal owner of the permit;

13 (2) the certificate for the pledged permit lists the debtor
14 as the equitable owner of the permit;

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

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

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

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

27 (d) Upon satisfaction of the note by the debtor, the director of
28 the division of Alaska loan programs shall certify to the Alaska Commer-
29 cial Fisheries Entry Commission that the note has been satisfied.

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

4 Sec. 45.96.300. PUBLIC PURPOSES. (a) The director of the divi-
5 sion of Alaska loan programs shall lend money to municipalities with
6 populations of less than 5,000 according to the most recent survey
7 conducted by the United States Census Bureau and to those corporations
8 eligible under (d) of this section. Loans to municipalities shall be
9 made through the purchase by the fund of municipal bonds. Loans to
10 nonprofit corporations shall be made through purchase by the fund of
11 revenue bonds issued on behalf of the corporation by the municipality in
12 which the project to be financed by the loan is constructed. If the
13 loan to a nonprofit corporation is for construction outside a munici-
14 pality, the revenue bonds to be purchased by the fund shall be issued by
15 the state bond committee on behalf of the nonprofit corporation. The
16 cost of a loan made under this subsection shall be the same as the cost
17 of borrowing to the fund. Loans made under this subsection may not
18 exceed \$5,000,000 and are subject to the following conditions:

19 (1) The borough or city attorney shall certify that all legal
20 requirements relating to required bond elections, if necessary, and to
21 bond issuance have been met, or if the bonds are issued outside a muni-
22 cipality, certification shall be made by the Department of Law.

23 (2) The bonds shall be prepared by the municipality's attor-
24 ney, approved by the attorney general and need not be in definitive
25 form.

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

28 (b) The director of the division of Alaska loan programs shall
29 submit a bid for all general obligation bonds offered on a competitive

1 basis by a home rule borough or city or general law borough or city of
2 any class incorporated under the laws of the state if the borough or
3 city provides its bid form to the director at least 10 days before the
4 opening of the bid. The request for bids and the bid proposal shall
5 provide for issuing all or a portion of the bonds based upon the best
6 combination of bids. The bid shall be determined on the basis of the
7 Daily Bond Buyer 20 bond average as follows:

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

10 (A) 100 points under the average for the first five
11 years maturity;

12 (B) 75 Points under the average for the next five years
13 maturity;

14 (C) 50 points under the average for the next five years
15 maturity;

16 (D) 25 points under the average for the next five years
17 maturity;

18 (E) 0 points under the average for the next five years
19 maturity;

20 (F) 25 points above the average for the next five years
21 maturity.

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

24 (A) 50 points under the average for the first five years
25 maturity;

26 (B) 25 points under the average for the next five years
27 maturity;

28 (C) 0 points under the average for the next five years
29 maturity;

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

3 (E) 50 points above the average for the next five years
4 maturity;

5 (F) 75 points above the average for the next five years
6 maturity.

7 (c) The director of the division of Alaska loan programs shall
8 submit a bid for all revenue bonds offered on a competitive basis by a
9 home rule borough or city or general law borough or city of any class or
10 on behalf of a nonprofit corporation performing any of the functions
11 described in AS 29.48 for which revenue sharing is received directly or
12 indirectly by the corporation or on behalf of those nonprofit corpora-
13 tions described in (d) of this section if the borough, city, or non-
14 profit corporation provides its bid form to the director at least
15 10 days before the opening of the bid. The request for bids and the bid
16 proposal shall provide for issuing all or a portion of the bonds based
17 upon the best combination of bids. The bid shall be determined on the
18 basis of the Daily Bond Buyer 20 bond average as follows:

19 (1) 50 points under the average for the first five years
20 maturity;

21 (2) 25 points under the average for the next five years
22 maturity;

23 (3) 0 points under the average for the next five years
24 maturity;

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

27 (5) 50 points above the average for the next five years
28 maturity;

29 (6) 75 points above the average for the next five years

1 maturity;

2 (d) A nonprofit corporation is eligible for a loan under this
3 section if

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

6 (2) it is a public corporation or other municipal instru-
7 mentality under AS 29.59.010; or

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

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

13 (f) The limitations in AS 45.96.400 - 45.96.430 do not apply to
14 loans or purchases made under this section.

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

24 (b) If money is not available to make any payment of principal and
25 interest when due on a bond issue, the chief executive officer of the
26 municipality which issued the bonds shall notify the commissioner of
27 revenue at least 20 days in advance of the pending default that a de-
28 fault is pending. Failure to give the notice of pending default is
29 grounds for removal of the chief executive officer from office and, if

1 default occurs, the office is forfeited and is filled as provided by law
2 for filling vacancies.

3 Sec. 45.96.320. MUNICIPAL BOND CAPITAL RESERVE ACCOUNT. For the
4 purpose of securing each tax exempt bond issue of municipalities of the
5 state and those bonds on behalf of nonprofit corporations guaranteed or
6 issued under this chapter there is established a special account called
7 the municipal bond capital reserve account. The commissioner of revenue
8 shall pay into that account from the unallocated reserve account upon
9 establishment an amount equal to five per cent of the obligations issued
10 and sold after July 1, 1979 and upon subsequent sales, if any, of obli-
11 gations of the issue secured an additional amount equal to five per cent
12 of the obligations sold. At the end of each fiscal year the commis-
13 sioner of revenue shall withdraw from the municipal bond capital reserve
14 account and pay to the unallocated reserve account any amount in the
15 account in excess of five per cent of the obligations secured or, if the
16 amount in the account is less than five per cent of the obligations
17 secured, pay into the account from the unallocated reserve account the
18 amount necessary to bring the reserve to five per cent. All money held
19 in a municipal bond capital reserve account shall be used as required,
20 when money is not available from the principal and interest account,
21 solely for (1) the payment of the principal of obligations, (2) the
22 purchase or redemption of obligations, (3) the payment of interest on
23 obligations, or (4) the payment of any redemption premium required to be
24 paid when those obligations are redeemed before maturity. Any income or
25 interest earned by the account shall be paid to the unallocated reserve
26 account. Any amount remaining in a municipal bond capital reserve ac-
27 count when the issue the account secures is fully retired shall be paid
28 to the unallocated reserve account.

29 Sec. 45.96.330. INDUSTRIAL DEVELOPMENT LOANS. (a) The director

1 of the division of Alaska loan programs may lend money from the fund to
2 businesses conducting exempt activities under sec. 103(b)(4) and (5) of
3 the Internal Revenue Code of 1954 for those activities either directly
4 or through purchase by the fund of industrial development bonds issued
5 on behalf of the business by the state bond committee.

6 (b) A loan may be made under this section only if upon payment of
7 the loan the project financed by the loan will be the property of

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

11 (2) the state if the activity is not conducted within a
12 municipality.

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

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

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

23 (d) A corporation, partnership, or firm which requests a loan of
24 greater than \$5,000,000 for a project under this section may request a
25 special series of bonds for its project. The director of the division
26 of Alaska loan programs may request the state bond committee to issue
27 the special series of bonds on behalf of the corporation, partnership,
28 or firm in place of making a direct loan. A corporation, partnership,
29 or firm is eligible for a special bond series for its project if it has

1 a credit rating of "A" or better.

2 Sec. 45.96.340. PROJECT COSTS ELIGIBLE FOR BONDING. In addition
3 to costs directly related to a project, the sum total of all costs of
4 financing and carrying out a project are eligible for bonding under AS
5 45.96.300 - 45.96.330. These include, but are not limited to, the costs
6 of all necessary studies, surveys, plans and specifications, architec-
7 tural, engineering or other special services, acquisition of real pro-
8 perty, site preparation and development, purchase, construction,
9 reconstruction and improvement of real property and the acquisition of
10 machinery and equipment as may be necessary in connection with a pro-
11 ject; an allocable portion of the administrative and operating expenses
12 of the issuer; the cost of financing the project, including interest on
13 bonds issued to finance the project; and the cost of other items, in-
14 cluding any indemnity and surety bonds and premiums on insurance, legal
15 fees, fees and expenses of trustees, depositaries, financial advisors,
16 and paying agents for the bonds issued as the issuer considers neces-
17 sary.

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

22 (b) Proceeds from scholarship loans may only be used for trans-
23 portation, books, tuition and required fees, and for room and board.
24 The loans may only be used to attend a career education program approved
25 by the Alaska Commission on Postsecondary Education or a college or
26 university accredited by the accreditation association for the region in
27 which the college or university is located or approved by the commis-
28 sion.

29 (c) To maintain a loan the student must continue to be enrolled as

1 a full-time student in good standing in a work study program approved by
2 the Department of Education, in a career education program, or in a
3 college or university designated under (b) of this section.

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

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

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

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

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

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

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

25 (4) 50 per cent or greater disability of the student, as
26 certified by competent medical authority.

27 Sec. 45.96.360. TOURISM, HISTORICAL AND OPEN SPACE LOANS. (a) In
28 addition to other powers granted in this chapter, the director of the
29 division of Alaska loan programs may make loans from the fund to a

1 business directly involved in the tourist industry.

2 (b) Upon endorsement and plan approval by a local historical
3 district commission established under AS 29.48.108 and the recommend-
4 ation of a majority of the members of the Historic Sites Advisory Com-
5 mittee, loans may be made from the fund to a person, firm, business or
6 municipality subject to applicable laws for the restoration, improve-
7 ment, rehabilitation, or maintenance of a structure which is

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

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

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

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

19 Sec. 45.96.370. ELIGIBILITY. In order to be eligible for a loan
20 under this chapter, other than a loan made under AS 45.96.350, a person
21 must have been a resident of the state for at least five years on the
22 date of application for the loan and must be 18 years of age or older.
23 Except for loans made under AS 45.96.330, a corporation is eligible for
24 a loan if more than 60 per cent of its shareholders have been residents
25 of the state for at least five years on the date of the application for
26 the loan, the chief executive officer and all members of the governing
27 board of the corporation have been residents of the state for at least
28 five years on the date of application for the loan, and the chief
29 executive officer and members of the governing board assume full indi-

1 vidual liability for repayment of the loan. A loan to a corporation is
2 immediately due and payable if it ceases to meet these eligibility
3 requirements. An individual is ineligible for a loan under this chapter
4 if an earlier loan to the individual from the state or an agency of the
5 state has been discharged in bankruptcy unless the defaulted loan has
6 been repaid in full and 10 years have elapsed from the date of repay-
7 ment.

8 Sec. 45.96.380. MAXIMUM LOAN AMOUNTS. (a) Loans made under the
9 authority of AS 45.96.260 for the purchase or construction of residen-
10 tial housing may not exceed: (1) \$90,000 for a single family dwelling;
11 (2) \$130,000 for a duplex; (3) \$170,000 for a triplex; (4) \$210,000 for
12 a fourplex. A loan made for the purchase or construction of residential
13 facilities in excess of four units shall be treated as a commercial
14 building loan subject to the limitations placed on such loans in (b)(1)
15 of this section.

16 (b) Commercial loans made under the authority of AS 45.96.270 may
17 not exceed:

18 (1) \$500,000 per individual for business activities; farm
19 development; agricultural irrigation systems; purchase, construction,
20 renovation, or repair of commercial buildings; fish manufacturing and
21 processing; fishing vessels and gear; logging operations and equipment;
22 timber manufacturing and processing; nonrenewable resource extraction;
23 or any other activity not otherwise specifically provided for in this
24 section;

25 (2) \$350,000 per individual for farm chattel other than for
26 irrigation systems.

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

29 (1) the loan is made to more than one but not more than 10

1 individuals participating in the project and the loan to each individual
2 does not exceed the maximum limit under (b)(1) of this section; or

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

7 (d) Educational loans made under the authority of AS 45.96.350 may
8 not exceed:

9 (1) \$4,000 per individual per year for undergraduate studies;

10 (2) \$8,000 per individual per year for graduate studies;

11 (3) \$4,000 per individual per year for vocational studies;

12 (4) \$4,000 per individual per year for work studies.

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

17 (1) a corporation or other organization of which the borrower
18 is an officer, director or partner, or is, directly or indirectly, the
19 beneficial owner of 10 per cent or more of any class of equity securi-
20 ties;

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

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

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

29 (5) a person directly or indirectly controlling, controlled

1 by, or under common control with, the borrower.

2 (f) The maximum loan amounts established in (a) - (d) of this
3 section shall increase in proportion to increases in the consumer price
4 index for Anchorage. The consumer price index for Anchorage for July 1,
5 1979 shall be the basis for determining annual percentage increases in
6 the maximum loan amounts.

7 Sec. 45.96.390. AREA COST DIFFERENTIAL. (a) The maximum loan
8 amounts established in AS 45.96.380(a) and (b) shall be increased by the
9 area cost differential (ACD) determined by the formula $ACD = LCC/BCC \times$
10 $LCOL/BCOL$ where

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

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

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

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

19 (b) For purposes of this section the Department of Transportation
20 and Public Facilities shall annually determine the cost of construction
21 and the cost of living in each area of the state under regulations
22 promulgated by the department establishing standards for the determi-
23 nation.

24 Sec. 45.96.400. ADDITIONAL LOAN LIMITATIONS. The maximum loan
25 amounts established in AS 45.96.380(b) and 45.96.390 shall be further
26 limited, based upon the actual technical and managerial experience of
27 the borrower relating to the project or activity for which the loan is
28 made, as follows:

29 (1) if the borrower's experience is less than two years, he

1 may receive up to 50 per cent of the maximum amount;

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

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

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

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

10 Sec. 45.96.410. VALUE LIMITATION. The provisions of AS 45.96.-
11 380 - 45.96.400 notwithstanding, no loan made under this chapter, unless
12 it is a loan made under the provisions of AS 45.96.330, may exceed

13 (1) 90 per cent of the appraised value of real property
14 pledged as security for the loan;

15 (2) 95 per cent of the appraised value of real property
16 pledged as security for the loan if the loan is for residential housing
17 in an area where Federal Housing Administration mortgage insurance is
18 not available; or

19 (3) 80 per cent of tangible personal property pledged as
20 security for the loan.

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

24 (1) 30 years on a loan secured by real property;

25 (2) 15 years or the life of the equipment on a loan secured
26 by equipment used for production of income;

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

29 Sec. 45.96.430. RATE OF INTEREST. (a) The rate of interest

1 charged to borrowers under this chapter shall be the amount determined
2 by the commissioner of revenue to be sufficient to cover anticipated
3 cost of money to the fund and, for borrowers other than municipalities,
4 one per cent over the anticipated cost for the loss reserve account plus
5 the amount required for any necessary insurance, but the rate of in-
6 terest charged may be lower if necessary to prevent bonds issued under
7 this Act from being arbitrage bonds under the provisions of and regula-
8 tions under section 103(c) of the Internal Revenue Code of 1954, as
9 amended. The determination of the anticipated cost by the commissioner
10 is conclusive. Rates of interest less than that, except as provided in
11 (b) of this section, may be charged if the renewable resource develop-
12 ment fund or another state fund agrees to pay the difference between
13 cost and the interest rate to be charged or if appropriation for the
14 purpose of paying the difference has been made.

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

27 (c) When the World War II veterans' revolving fund's assets become
28 depleted so that it can no longer pay the difference, the provisions of
29 (b) of this section relating to loans made to veterans apply only if

1 appropriation is made for the purpose of paying the difference. When
2 the agricultural revolving loan fund's assets become depleted so that it
3 can no longer pay the difference, the provisions of (b) of this section
4 relating to loans made for agricultural purposes apply only if appro-
5 priation is made for the purpose of paying the difference.

6 Sec. 45.96.440. ELIGIBILITY FOR VETERANS' INCENTIVE. (a) The
7 following persons are eligible for special interest rates for veterans
8 established in AS 45.96.430(b);

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

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

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

25 (2) a person who was dependent on a member of the armed
26 forces or a veteran of World War II at the time of the member's or
27 veteran's death if

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

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

6 (C) he died before the official date of the termination
7 of that war; and

8 (D) his discharge was not dishonorable;

9 (3) a person who has served in the Alaska Army National
10 Guard, the Alaska Air National Guard, or the Alaska Naval Militia for
11 not less than six years and who has not received a discharge other than
12 honorable.

13 (b) The provisions of AS 45.96.430(b) are extended to persons who
14 served other than dishonorably on active duty between June 25, 1950, and
15 January 31, 1955, who served other than dishonorably on active duty
16 between August 4, 1964, and six months after termination of hostilities
17 involving forces of the United States, and to dependents of those per-
18 sons, subject to the following provisions and eligibility qualifica-
19 tions:

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

22 (2) at the time of entry into the service residency in the
23 territory or state for not less than one year before entry into the
24 service, and return to the territory or state within a reasonable length
25 of time after discharge or separation with the intention of remaining in
26 the territory or state; or lacking residency before entry into the
27 service, residency in the territory or state for at least five years
28 following release from active military service; and

29 (3) service in the armed forces of the United States for

1 90 days or more, or service for a lesser period because of injury or
2 disability incurred in line of duty, between June 25, 1950, and Janu-
3 ary 31, 1955, or service in the armed forces of the United States for
4 90 days or more or service for a lesser period because of injury or
5 disability incurred in line of duty, between August 4, 1964, and July 1,
6 1977.

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

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

18 (b) The commissioner of commerce and economic development shall
19 incorporate into all lending instruments issued under this chapter the
20 provisions of (a) of this section and a provision calling for immediate
21 foreclosure of the loan for violation of the provisions of (a) of this
22 section.

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

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

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

6 Sec. 45.96.470. BANK PARTICIPATION. (a) Loans made under the
7 authority of this chapter may be made in participation with financial
8 institutions. The participating financial institution may act as agent
9 for the division of Alaska loan programs in the initial processing of
10 applications for loans. Fees for such services shall be mutually agreed
11 upon.

12 (b) If a financial institution participates in a loan, the fund
13 and the participating institution shall share the same ratable interest
14 in the collateral securing the loan. Loan payments made by the borrower
15 shall be distributed between the financial institution and the fund on a
16 pro rata basis.

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

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

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

28 (1) may participate in the implementation stages of that
29 project; or

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

3 (b) A list of all persons performing preliminary services for a
4 loan applicant shall be furnished to the division of Alaska loan pro-
5 grams as part of the loan application, and a list of all persons with
6 whom the borrower has contractual relations in respect to the project
7 after the application for loan shall be submitted to the division at
8 intervals set by the division of Alaska loan programs.

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

12 * Sec. 7. AS 03.10.050 is repealed and re-enacted to read:

13 Sec. 03.10.050. ADMINISTRATION OF FUND. The commissioner shall
14 administer the loan fund.

15 * Sec. 8. AS 14.40.751(a) is amended to read:

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

24 * Sec. 9. AS 14.40.755(b) is amended to read:

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

29 * Sec. 10. AS 18.100.050 is amended to read:

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

6 * Sec. 11. AS 18.100.070(a) is amended to read:

7 (a) There is created within the Department of Community and Re-
8 gional Affairs a senior citizens housing development fund. Subject to
9 direct appropriation [OR THROUGH PROCEEDS OF A BONDING ISSUE] the de-
10 partment shall make grants [OR LOANS] to municipalities or to corpora-
11 tions designated as tax exempt under sec. 501(c)(3) and (4) of the
12 Internal Revenue Code of 1954 [ELIGIBLE FOR LOANS UNDER AS 18.100.050]
13 for the purpose of developing senior citizen housing. [A GRANT FROM THE
14 PROCEEDS OF A BOND ISSUE MAY BE MADE ONLY TO MUNICIPALITIES.]

15 * Sec. 12. AS 18.100.070(b) is amended to read:

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

22 * Sec. 13. AS 29.13.100 is amended by adding a new paragraph to read:

23 (39) AS 29.58.290 (industrial development bonds)

24 * Sec. 14. AS 29.58 is amended by adding a new section to read:

25 Sec. 29.58.290. INDUSTRIAL DEVELOPMENT BONDS. No municipality,
26 home rule or otherwise, may issue a revenue bond which is an industrial
27 development bond under the provisions of the Internal Revenue Code of
28 1954 (26 U.S.C. 103).

29 * Sec. 15. AS 37.10.050 is amended to read:

1 Sec. 37.10.050. ACCOUNTING FOR STATE MONEY AND PAYMENT TO DIVISION
2 OF TREASURY [DEPARTMENT OF REVENUE] FOR DEPOSIT IN PROPER FUND. (a)

3 Each office, board, commission, or bureau authorized to collect or
4 receive fees, licenses, taxes or other money belonging to the state
5 shall account for and pay the fees, licenses, taxes or other money, less
6 fees to which he is entitled by law to the division of treasury of the
7 Department of Revenue at least once each month.

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

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

20 * Sec. 16. AS 37.10.070(a) is amended to read:

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

- 26 (1) obligations of, or obligations insured or guaranteed by,
27 the United States or agencies or instrumentalities of the United States;
28 (2) obligations secured by reserves paid in by the United
29 States or agencies or instrumentalities of the United States or obli-

1 gations of corporations in which the United States is a shareholder or
2 member;

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

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

6 (5) corporate obligations of prime or equivalent quality, as
7 rated by a nationally recognized rating organization;

8 (6) other securities, including corporate securities;

9 (7) Federal Housing Administration mortgages;

10 (8) Federal Veterans Administration mortgages;

11 (9) loans made under the provisions of the Alaska loan pro-
12 grams fund (AS 45.96) [AS 03.10 AND AS 26.15];

13 (10) conventional residential mortgages if the offering fin-
14 ancial institution retains at least 25 per cent of the mortgage;

15 (11) other secured loans, if the offering financial insti-
16 tution retains at least 33 1/3 per cent of the mortgage;

17 (12) mortgages of the Alaska Rural Rehabilitation Corporation
18 which secure agricultural loans, agricultural business loans and agri-
19 cultural processing loans;

20 (13) bankers acceptances drawn on and accepted by banks with a
21 combined capital and surplus aggregating at least \$200,000,000;

22 (14) repurchase agreements, reverse repurchase agreements, or
23 any trading practice or instrumentalities that may evolve investment
24 management.

25 * Sec. 17. AS 37.10.070(f) is repealed and re-enacted to read:

26 (f) Investment policy shall be formulated by the director of the
27 division of treasury of the Department of Revenue subject to the ap-
28 proval of the commissioner of revenue. In formulating investment policy
29 the director of the division of treasury shall consider maximum income

1 and safety as governed by the prudent-man rule. The investment policy
2 shall be proposed to the legislature during the first 10 days of any
3 regular session. Investment policy only becomes effective 60 days after
4 presentation to the legislature or at the end of that session, whichever
5 is earlier, unless disapproved by a resolution concurred in by a major-
6 ity of the members of each house.

7 * Sec. 18. AS 37.10.070(g) is amended to read:

8 (g) The director of the division of treasury [COMMISSIONER OF
9 REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts
10 for services providing investment advice, custody of securities, and
11 execution of transactions, in or out of Alaska.

12 * Sec. 19. AS 37.10.070(i) is amended to read:

13 (i) The director of the division of treasury [COMMISSIONER] shall
14 purchase notes and mortgages under (a) of this section at a rate con-
15 ducive to develop and benefit Alaska and Alaska residents and this rate
16 may be less than the market rate.

17 * Sec. 20. AS 37.10.070 is amended by adding a new subsection to read:

18 (k) In making investments under (a) of this section, the director
19 of the division of treasury may pool the surplus assets of the state
20 funds but shall maintain separate accounts for each fund.

21 * Sec. 21. AS 37.10.075(a) is amended to read:

22 (a) When the commissioner of revenue determines that there are
23 funds in the state treasury which are not being used for the purposes
24 provided for in AS 37.10.070, he may direct the director of the divi-
25 sion of treasury to deposit the funds [THEY MAY BE DEPOSITED] in finan-
26 cial institutions in the state which offer the highest bid for the
27 state funds. Collateral may be required by the commissioner to secure
28 state deposits provided for under this section.

29 * Sec. 22. AS 39.25.120(2) is amended to read:

1 (2) the directors, division of personnel, division of public
2 health, division of medical assistance, and those other directors of the
3 major divisions of the principal departments of the executive branch as
4 are specifically designated by the governor, except the directors of the
5 division of Alaska loan programs, division of treasury and division of
6 collections are in the classified service and may not be designated as
7 partially exempt;

8 * Sec. 23. AS 41.22.020(a) is amended to read:

9 (a) In addition to uses of fund money authorized in sec. 10 of
10 this chapter, money of the fund shall be utilized to make grants to
11 municipalities, of up to one-half the nonfederal share of costs of pro-
12 jects described in AS 41.22.010 which are initiated by a municipality [,
13 AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES TO MAKE OPTION
14 PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION OF WHICH
15 FEDERAL FUNDS ARE ANTICIPATED].

16 * Sec. 24. AS 41.35.180(5) is repealed and re-enacted to read:

17 (5) consult with local historical district commissions re-
18 garding the establishment of historical districts under AS 29.48.108 -
19 29.48.110 and recommend, if appropriate, the formulation of additional
20 criteria for the designation of historical districts under AS 29.48.-
21 110(b).

22 * Sec. 25. AS 44.21.020 is amended by adding new paragraphs to read:

23 (13) provide accounting services for the permanent fund (AS
24 37.13.010), the Alaska loan programs fund (AS 45.96), the renewable re-
25 sources development fund (AS 37.11), and all other state funds;

26 (14) provide detailed accounting of state loans outstanding and
27 securities held by the state.

28 * Sec. 26. AS 44.25 is amended by adding a new section to read:

29 Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established

1 within the Department of Revenue the division of treasury. The director
2 of the division is in the classified service under AS 39.25 and shall
3 receive an annual salary within range 27 of the salary schedule estab-
4 lished in AS 39.27.011 or within one range below that on which the
5 highest paid deputy commissioner in the Department of Revenue is paid if
6 that range is higher than range 27.

7 (b) In order to qualify for the position of director of the divi-
8 sion, a person must

9 (1) be graduated from an accredited college with major course
10 work in business administration, accounting, finance, banking, econ-
11 omics, or another closely related field;

12 (2) have 10 years of experience in banking or investment
13 management involving review, analysis, purchase and sell recommenda-
14 tions, and responsibility for performance with at least four of the
15 years in a managerial capacity.

16 (c) The director of the division of treasury shall collect, ac-
17 count for, have custody of, invest, and manage all state funds and all
18 revenues of the state except revenues incidental to a program of licen-
19 sing and regulation carried on by another state department, except that
20 the division shall issue fish and game licenses, collect fish and game
21 license revenues, and do all other acts incidental to the performance of
22 these functions.

23 * Sec. 27. AS 44.33.020 is amended by adding a new paragraph to read:

24 (22) administer the Alaska loan programs fund (AS 45.96).

25 * Sec. 28. AS 18.56.110(a) is amended to read:

26 (a) The corporation, by resolution, may issue bonds and bond
27 anticipation notes in order to provide funds to carry out and effectuate
28 its purposes only if the state bond committee finds that the issuance
29 is consistent with the bond program of the Alaska loan programs fund.

1 * Sec. 29. All state agencies, departments, commissions, corporations,
2 divisions or other instrumentalities administering or having authority over
3 or control of a loan program or loan fund affected by secs. 7 - 12, 23 - 24,
4 and 30 of this Act shall cease accepting applications for loans no later than
5 January 1, 1980. The division of Alaska loan programs shall begin to accept
6 applications for loans from the Alaska loan programs fund no later than
7 January 1, 1980.

8 * Sec. 30. The following laws are repealed: AS 03.10.010; 03.10.020(1),
9 (4), and (5); 03.10.030; 03.10.054; AS 14.40.751(c), 14.40.759 - 14.40.771;
10 AS 16.10.300; 16.10.310(a)(1), (4), (5); 16.10.320; AS 18.100.030(1) and (4),
11 18.100.040 - 18.100.060; AS 26.15.010(b) - (d), 26.15.040 - 26.15.060,
12 26.15.110 - 26.15.160; AS 41.22.020(b) - (c); AS 41.30.010 - 41.30.080;
13 AS 44.33.020(5), 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260;
14 AS 44.59.140(7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS
15 44.60.010, 44.60.130(7) - (13), 44.60.160 - 44.60.260, 44.60.310 - 44.60.320;
16 AS 44.61.010 - 44.61.220; AS 45.86.010 - 45.86.030, 45.86.040(b) - (c),
17 45.86.050 - 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4),
18 45.90.030; AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040,
19 45.98.060.

20 * Sec. 31. AS 37.10.065, 37.10.075(b) - (d), 37.10.079; and AS 44.25.-
21 020(2) are repealed.

22 * Sec. 32. Sections 1 - 6, 13 - 22, 25 - 29, and 31 of this Act take
23 effect June 30, 1979. The unobligated general fund surplus as of June 30,
24 1979 shall lapse into the unallocated reserve account created in AS 45.96.125
25 on June 30, 1979.

26 * Sec. 33. Sections 7 - 12, 23, 24 and 30 of this Act take effect June
27 30, 1980.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

ALASKA COMMISSION ON POSTSECONDARY EDUCATION

POUCH F - STATE OFFICE BUILDING
JUNEAU, ALASKA 99811
(907) 465-2855

February 28, 1979

The Honorable Hugh Malone
Chairman, Special Permanent
Fund Committee
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Representative Malone:

I have read with interest HB 279; "an act relating to the Alaska loan programs fund, the Alaska permanent fund, and state investment policy and other state revenues," and I would like to submit the following comments for your consideration and the consideration of your committee.

The Alaska Loan Programs Fund proposes to combine existing loan programs into one administrative loan structure. The purpose is to improve service, to secure better interest rates and terms, and ostensibly, to provide more efficient management. I do not believe that abolishing the current student loan program and creating a new student loan program as described in SSSB 1 and HB 279 accomplishes any of the stated purposes.

Improved Service. After seven years of program operation, the student loan program, as administered by the Alaska Commission on Postsecondary Education, is providing excellent service to the student borrowers of Alaska. An automated system has finally been developed and is currently being implemented. During this spring, all collections will be on our automated system, and by next winter, all awards will also be converted. As an educational agency which handles other student assistance programs, we are able to advise students of other available sources of aid and to thereby keep indebtedness at a minimum. I do not feel that moving the loan program into another agency, which does not have responsibility for other educational programs and which does not interface with educational institutions and organizations both locally and nationally, will improve client service. It could, in fact, prove to have the opposite effect.

Better Interest Rates and Terms. The current interest rate for student loans is five percent. Under the proposed plan, the interest rate would be set by the commissioner of revenue at a level sufficient to cover anticipated costs to the fund plus one percent for a loss reserve account. It is highly doubtful that this interest rate would be as low as five percent. I recognize that five percent is a very low interest rate, but I believe the foregone interest which might be collected by a higher rate, to be an excellent investment in the youth of Alaska.

I do not feel the terms of the loan program as described in SSSB 1 and HB 279 are an improvement over the existing program. In fact, I feel the terms are not as desirable as those currently in law. The new program changes the terms in essentially four ways. Each of these will be briefly discussed.

1. transportation: Under the new terms, transportation expenses would be an allowable loan item. This is not currently the case. The current philosophy is to provide assistance for room, board, books, and tuition. If a student wishes to attend out-of-state, the transportation costs to and from that school are borne by the student. I believe this to be justifiable and do not feel these expenses should be allowable loan items.

2. cancellation benefits: The new loan terms provide for 40 percent of a loan to be cancelled (considered a grant) as long as a borrower has remained current in repaying the first 60 percent of what was borrowed. The current loan program provides for up to 40 percent of a loan to be cancelled if, upon completion of a course of study, the borrower lives and works in Alaska. This is an incentive for the student to remain here upon graduation, or return to the state if educated "outside".

First, I believe strongly in the provision of this incentive for working in the state, and I would encourage its continuation. Second, I consider the student loan a legal debt and obligation. A person who meets this obligation is simply complying with the law. Those who do not meet the obligation are penalized through interest charges. I do not endorse a system which has its sole basis for reward (through cancellation), the simple meeting of one's legal responsibility.

3. loan limits: The current program provides \$3,000 and \$5,000 per year as maximum loans for undergraduate and graduate student, respectively. The new program provides \$4,000 and \$8,000. I have no evidence to warrant increasing the loan limits to these higher levels at the current time.

4. collateral: Security is required for all loans under the new program (except certain industrial development loans). Further, the provisions set loan limits based upon that security (or its appraised value). This is currently not required, and we feel it is inappropriate for student loans.

Efficient Management. The Alaska Commission on Postsecondary Education is an educational agency. It administers the student loan program, the WICHE student exchange program, the memorial scholarship loan programs, the guaranteed student loan program, and the state educational incentive grant program. Additionally, it works with educational institutions, agencies, and associations at the local, state, and national levels and administers a number of non-student aid programs.

In determining a student loan, a student aid "package" is developed in cooperation with the institution of attendance. All of our aid programs are coordinated. If a WICHE grant is awarded, the loan need is adjusted; if an incentive grant is

The Honorable Hugh Malone
February 28, 1979
Page 3

awarded, the loan is adjusted; and so on. The benefit of one office handling all these closely related educational aid programs are many. To pull out one educational aid program and combine it with other loan programs simply because they all provide funds to people in the form of loans, does not guarantee management efficiency.

I do not believe the student loan program can operate with fewer people than currently required (17 full-time and 2 temporary) regardless of where it is operated. We have a division with four supervisory personnel (Range 14). We do not have a director; those duties are shared by commission staff. The structure as described in SSB 1 and HB 279 does not appear to provide any personnel savings. In fact, the other aid programs which are operated by the Commission would require additional personnel if total aid packaging is no longer possible.

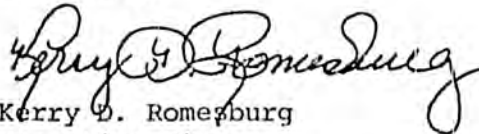
Conclusion and Recommendations

I do not believe the student loan program should be incorporated into a state loan division. I recommend that the program be left substantially as it currently exists, both administratively and programmatically. If it is desired that the permanent fund be utilized as the fundign source for student loans, this can be accomplished under the present structure.

If the state loan division is established, excluding the student loan program, I would recommend that the student loan division be able to utilize the collection services for those defaulted loans which are currently processed through the Attorney General's office. Routine collections could continue to be handled in the current manner, but those chronic default accounts could beneficially be channeled through a central office.

If you have any questions, or if I can be of any assistance, please let me know.

Sincerely,



Kerry D. Romeburg
Executive Director

cc: Representative C. V. Chatterton
Representative Sam Cotten
Representative Oral Freeman
Representative Phillip Guy
Representative E. J. Haugen
Representative Joe Hays
Representative Brian Rogers
Representative Leo Schaeffer

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5 - JUNEAU 99811

February 28, 1979

The Honorable Hugh Malone
Chairman
House Special Permanent Fund
Committee
Room 647 - Court Building
Juneau, Alaska

Re: House Bill No. 279

Dear Mr. Malone:

House Bill No. 279, an Act relating to the Alaska loan programs fund, the Alaska permanent fund, and statement investment policy and other state revenues, was introduced in the House on February 22, 1979 and was referred to the House Special Permanent Fund and Finance Committees.

For the consideration of the House Special Permanent Fund Committee, I am enclosing a copy of a Fiscal Note prepared by Mr. Peter Bushre, Deputy Commissioner, Department of Revenue concerning the proposed legislation.

Sincerely,



R. D. Stevenson
Special Assistant

cc: The Honorable Russ Meekins
Chairman
House Finance Committee

John Messenger
Commissioner
Department of Revenue

Peter Bushre
Deputy Commissioner
Department of Revenue

THE LEGISLATURE OF THE STATE OF ALASKA
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB279 - An Act relating to the Alaska loan programs fund, the Alaska Permanent Fund, and state investment policy and other state revenues; and Title providing for an effective date.
Requested by _____ Date _____

II. FISCAL DETAIL

Agency Affected Department of Revenue, Department of Commerce & Economic Development
Program Category Affected General Government
BRU, Program, or Subprogram(s) Affected Treasury Management
(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
100 PERSONAL SERVICES		2667.7	2667.7	2667.7	2667.7	2667.7
200 TRAVEL		210.7	21.0	21.0	21.0	21.0
300 CONTRACTUAL		1481.7	1481.7	1481.7	1481.7	1481.7
400 COMMODITIES		48.3	48.3	48.3	48.3	48.3
500 EQUIPMENT		111.8	6.0	3.5	2.0	1.5
600 LAND & STRUCTURES		248.1	167.1	167.1	167.1	167.1
700 GRANTS, CLAIMS, ETC.						
TOTAL		4768.3	4662.5	4660.0	4658.5	4658.0

FUNDING (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
GENERAL FUND		3329.2	2961.7	2959.2	2958.7	2958.2
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
Permanent Fund		1439.1	1430.1	1430.1	1429.1	1429.1
Total		4768.3	4391.8	4389.3	4387.8	4387.3

POSITIONS

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

All costs represented herein are incremented and pertain only to those charges added by the subject legislation. Existing agency budgets remain in effect. See attached for analysis.

	<u>Total</u>	<u>Loan Programs</u>	<u>Collections</u>	<u>Investment Oversight</u>	<u>Permanent Fund Corp.</u>	<u>Treasury</u>
100 - Personal	\$2,667,703	\$ 768,576	\$ 917,814	\$ 287,892	\$ 510,102	\$ 183,319
200 - Travel	210,750	57,800	40,000	21,050	80,460	11,440
300 - Contractual	1,481,700	86,500	369,500	115,900	776,400	133,400
400 - Commodities	48,300	15,000	10,000	4,100	16,000	3,200
500 - Equipment	111,800	50,000	35,800	6,500	10,000	9,500
600 - Office Space	<u>248,100</u>	<u>75,000</u>	<u>81,000</u>	<u>31,000</u>	<u>46,100</u>	<u>15,000</u>
	<u>\$4,768,353</u>	<u>\$1,052,876</u>	<u>\$1,454,114</u>	<u>\$466,442</u>	<u>\$1,439,062</u>	<u>\$ 355,859</u>

DIVISION OF ALASKA LOANS

100 - Personal

	<u>Per Position</u> <u>(wages)</u>	<u>Employer</u> <u>Charges</u>	<u>Annualized</u>
(1) Director - Range 27	\$ 3,752	\$ 669.05	\$ 53,052
(1) Secretary - Range 10	1,254	274.16	18,348
(1) Comptroller - Range 24	3,401	623.82	48,300
(2) Loan Examiner - Range 19	2,355	468.18	67,764
(1) Bond Specialist - Range 23	3,161	588.10	45,000
(1) Muni. Finn. Analyst - Range 18	2,186	443.03	31,560
(4) Loan Examiner II - Range 17	2,031	419.96	117,648
(2) Ind. Dev. Specialist - Range 16	1,888	588.10	59,436
(5) Loan Examiner I - Range 15	1,751	378.29	127,764
(3) Ed. Loan Specialist - Range 14	1,629	360.15	71,616
(7) Process Clerk - Range 10	1,254	270.78	128,088
	<u>\$ 24,662</u>	<u>\$5,083.62</u>	<u>\$ 768,576</u>

200 - Travel

12 trips per year for 1 Director in Alaska	\$ 2,400
4 trips per year outside Alaska for 1 Director	2,400
12 trips per year for loan examiner in Alaska	26,400
6 trips per year for muni. Finn Analyst	1,200
12 trips per year for 2 Indus. Dev. Specialists in Alaska	4,800
4 trips per year for Bond Specialist outside Alaska	<u>2,400</u>
 364 day per diem at \$50 per day	 18,200
	<u>\$ 57,800</u>

300 - Contractual

Telephone	\$ 30,000
Postage	3,500
Printing/Production	15,000
Auditing	20,000
Equipment Rental	15,000
Miscellaneous	3,000
	<u>\$ 86,500</u>

400 - Commodities

\$ 15,000

500 - Equipment

\$ 50,000

600 - Office Space

\$ 75,000

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
MARCH 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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Hon. Peter Bushre
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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

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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. |

HOUSE SPECIAL PERMANENT FUND COMMITTEE

SAM FLAIA ON SS SB 1

p. 6

(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 (MB 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

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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

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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.

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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

1 IN THE HOUSE

BY THE SPECIAL PERMANENT
FUND COMMITTEE

2 HOUSE BILL NO. 279

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

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

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

11 * Section 1. AS 24.20.151 is amended to read:

12 Sec. 24.20.151. LEGISLATIVE BUDGET AND AUDIT COMMITTEE ESTAB-
13 LISHED. The Legislative Budget and Audit Committee is established as a
14 permanent interim committee of the legislature. The establishment of
15 the committee recognizes the need of the legislature for full-time
16 technical assistance in accomplishing the fiscal analysis, budget re-
17 view, investment oversight and post-audit functions.

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

19 (8) make recommendations concerning the structure and operat-
20 ing practices of all agencies of the state which perform lending or
21 investment functions;

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

25 (10) provide for an annual post audit and annual operational
26 and performance evaluation of the Alaska Permanent Fund Corporation in-
27 vestments and investment programs.

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

29 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

1 chapter may not exceed:

2 (1) \$4,000 per individual per year for undergraduate studies;

3 (2) \$8,000 per individual per year for graduate studies;

4 (3) \$4,000 per individual per year for vocational studies;

5 (4) \$4,000 per individual per year for work studies.

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

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

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

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

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

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

24 (f) The maximum loan amounts established in (a) - (d) of this
25 section shall increase in proportion to increases in the consumer price
26 index for Anchorage. The consumer price index for Anchorage for July 1,
27 1979 shall be the basis for determining annual percentage increases in
28 the maximum loan amounts.

29 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

1 rated by a nationally recognized rating organization;

2 (6) other securities, including corporate securities;

3 (7) Federal Housing Administration mortgages;

4 (8) Federal Veterans Administration mortgages;

5 (9) loans made under the provisions of the Alaska loan pro-
6 grams fund (AS 45.96) [AS 03.10 AND AS 26.15];

7 (10) conventional residential mortgages if the offering fin-
8 ancial institution retains at least 25 per cent of the mortgage;

9 (11) other secured loans, if the offering financial insti-
10 tution retains at least 33 1/3 per cent of the mortgage;

11 (12) mortgages of the Alaska Rural Rehabilitation Corporation
12 which secure agricultural loans, agricultural business loans and agri-
13 cultural processing loans;

14 (13) bankers acceptances drawn on and accepted by banks with a
15 combined capital and surplus aggregating at least \$200,000,000;

16 (14) repurchase agreements, reverse repurchase agreements, or
17 any trading practice or instrumentalities that may evolve in investment
18 management.

19 * Sec. 20. AS 37.10.070(f) is repealed and re-enacted to read:

20 (f) Investment policy shall be formulated by the director of the
21 division of treasury of the Department of Revenue subject to the ap-
22 proval of the commissioner of revenue. In formulating investment policy
23 the director of the division of treasury shall consider maximum income
24 and safety as governed by the prudent-man rule. The investment policy
25 shall be proposed to the legislature during the first 10 days of any
26 regular session. Investment policy only becomes effective 60 days after
27 presentation to the legislature or at the end of that session, whichever
28 is earlier, unless disapproved by a resolution concurred in by a major-
29 ity of the members of each house.

1 * Sec. 21. AS 37.10.070(g) is amended to read:

2 (g) The director of the division of treasury [COMMISSIONER OF
3 REVENUE, WITH THE CONSENT OF THE COMMITTEE,] may enter into contracts
4 for services providing investment advice, custody of securities, and
5 execution of transactions, in or out of Alaska.

6 * Sec. 22. AS 37.10.070(i) is amended to read:

7 (i) The director of the division of treasury [COMMISSIONER] shall
8 purchase notes and mortgages under (a) of this section at a rate con-
9 ductive to develop and benefit Alaska and Alaska residents and this rate
10 may be less than the market rate.

11 * Sec. 23. AS 37.10.070 is amended by adding a new subsection to read:

12 (k) In making investments under (a) of this section, the director
13 of the division of treasury may pool the surplus assets of the state
14 funds but shall maintain separate accounts for each fund.

15 * Sec. 24. AS 37.10.075(a) is amended to read:

16 (a) When the commissioner of revenue determines that there are
17 funds in the state treasury which are not being used for the purposes
18 provided for in sec. 70 of this chapter, he may direct the director of
19 the division of treasury to deposit the funds [THEY MAY BE DEPOSITED] in
20 financial institutions in the state which offer the highest bid for the
21 state funds. Collateral may be required by the commissioner to secure
22 state deposits provided for under this section.

23 * Sec. 25. AS 39.25.120(2) is amended to read:

24 (2) the directors, division of personnel, division of public
25 health, division of medical assistance, and those other directors of the
26 major divisions of the principal departments of the executive branch as
27 are specifically designated by the governor, except the directors of the
28 division of Alaska loan programs, division of treasury and division of
29 collections are in the classified service and may not be designated as

1 partially exempt;

2 * Sec. 26. AS 41.22.020(a) is amended to read:

3 (a) In addition to uses of fund money authorized in sec. 10 of
4 this chapter, money of the fund shall be utilized to make grants to
5 municipalities, of up to one-half the nonfederal share of costs of pro-
6 jects described in sec. 10 of this chapter which are initiated by a
7 municipality [, AND LOANS OF AMOUNTS NECESSARY TO ENABLE MUNICIPALITIES
8 TO MAKE OPTION PAYMENTS ON PARKS AND OPEN SPACE LAND FOR THE ACQUISITION
9 OF WHICH FEDERAL FUNDS ARE ANTICIPATED].

10 * Sec. 27. AS 41.35.180(5) is repealed and re-enacted to read:

11 (5) consult with local historical district commissions re-
12 garding the establishment of historical districts under AS 29.48.108 -
13 29.48.110 and recommend, if appropriate, the formulation of additional
14 criteria for the designation of historical districts under AS 29.48.-
15 110(b).

16 * Sec. 28. AS 44.21.020 is amended by adding new paragraphs to read:

17 (13) provide accounting services for the permanent fund (AS
18 37.13.010), the Alaska loan programs fund (AS 45.96), the renewable re-
19 sources development fund (AS 37.11), and all other state funds;

20 (14) provide detailed accounting of state loans outstanding and
21 securities held by the state.

22 * Sec. 29. AS 44.25 is amended by adding a new section to read:

23 Sec. 44.25.025. DIVISION OF TREASURY. (a) There is established
24 within the Department of Revenue the division of treasury. The director
25 of the division is in the classified service under AS 39.25 and shall
26 receive an annual salary within range 27 of the salary schedule estab-
27 lished in AS 39.27.011 or within one range below that on which the
28 highest paid deputy commissioner in the Department of Revenue is paid if
29 that range is higher than range 27.

1 (b) In order to qualify for the position of director of the divi-
2 sion, a person must

3 (1) be graduated from an accredited college with major course
4 work in business administration, accounting, finance, banking, econ-
5 omics, or another closely related field;

6 (2) have 10 years of experience in banking or investment
7 management involving review, analysis, purchase and sell recommenda-
8 tions, and responsibility for performance with at least four of the
9 years in a managerial capacity.

10 (c) The director of the division of treasury shall collect, ac-
11 count for, have custody of, invest, and manage all state funds and all
12 revenues of the state except revenues incidental to a program of licen-
13 sing and regulation carried on by another state department, except that
14 the division shall issue fish and game licenses, collect fish and game
15 license revenues, and do all other acts incidental to the performance of
16 these functions.

17 * Sec. 30. AS 44.33.020 is amended by adding a new paragraph to read:

18 (22) administer the Alaska loan programs fund (AS 45.96).

19 * Sec. 31. AS 18.56.110(a) is amended to read:

20 (a) The corporation, by resolution, may issue bonds and bond
21 anticipation notes in order to provide funds to carry out and effectuate
22 its purposes only if the state bond committee finds that the issuance
23 is consistent with the bond program of the Alaska loan programs fund.

24 * Sec. 32. All state agencies, departments, commissions, corporations,
25 divisions or other instrumentalities administering or having authority over
26 or control of a loan program or loan fund affected by secs. 10 - 15, 26 - 27,
27 and 33 of this Act shall cease accepting applications for loans no later than
28 January 1, 1980. The division of Alaska loan programs shall begin to accept
29 applications for loans from the Alaska loan programs fund no later than

1 January 1, 1980.

2 * Sec. 33. The following laws are repealed: AS 03.10.010; 03.10.020(1),
3 (4), and (5); 03.10.030; 03.10.054; AS 14.40.751(c), 14.40.759 - 14.40.771;
4 AS 16.10.300; 16.10.310(a)(1), (4), (5); 16.10.320; AS 18.100.030(1) and (4),
5 18.100.040 - 18.100.060; AS 26.15.010(b) - (d), 26.15.040 - 26.15.060,
6 26.15.110 - 26.15.160; AS 41.22.020(b) - (c); AS 41.30.010 - 41.30.080;
7 AS 44.33.020(5), 44.33.245(a)(1), 44.33.245(b), 44.33.250 - 44.33.260;
8 AS 44.59.140(7) - (14), 44.59.170, 44.59.190 - 44.59.410, 44.59.430; AS
9 44.60.010, 44.60.130(7) - (13); 44.60.160 - 44.60.260, 44.60.310 - 44.60.320;
10 AS 44.61.010 - 44.61.220; AS 45.86.010 - 45.86.030, 45.86.040(b) - (c),
11 45.86.050 - 45.86.060; AS 45.88.010 - 45.88.040; AS 45.90.020(a)(1), (4),
12 45.90.030; AS 45.95.020 - 45.95.030, 45.95.070; AS 45.98.020 - 45.98.040,
13 45.98.060.

14 * Sec. 34. AS 37.10.065(c), 37.10.075(b) - (d), 37.10.079; and AS 44.25.-
15 020(2) are repealed.

16 * Sec. 35. AS 37.10.065(a) and (b) are repealed.

17 * Sec. 36. Section 35 of this Act takes effect upon transfer of the funds
18 of the Alaska permanent fund to the Alaska Permanent Fund Corporation as
19 provided in sec. 8 of this Act.

20 * Sec. 37. Sections 1 - 9, 16 - 25, 28 - 32, and 34 of this Act take
21 effect June 30, 1979. The unobligated general fund surplus as of June 30,
22 1979 shall lapse into the unallocated reserve account created in AS 45.96.125
23 on June 30, 1979.

24 * Sec. 38. Sections 10 - 15, 26, 27 and 33 of this Act take effect June
25 30, 1980.