

SCOMM

#50:17

HOUSE SPECIAL COMMITTEE
ON STATE LOANS
February 19, 1985
3:30 p.m.

Members Present: Representative John Sund, Chair
Representative Sam Cotten
Representative Jack Fuller
Representative Jim Duncan
Representative Rick Uehling

COMMITTEE CALENDAR

HB 59 "An Act making a special appropriation to the Department of Natural Resources, division of parks, for the youth hostel loan fund; and providing for an effective date."
HB 61 "An Act relating to loans for youth hostels."
HB 109 "An Act relating to interest rates on and handling repayment of state loans; and providing for an effective date."

WITNESS REGISTER

Mike M. Miller, Representative
District Two
Pouch V
Juneau, AK 99811
465-4990
Position Statement: Spoke in favor of HB 59.

Terry Elder, Deputy Commissioner
Department of Commerce and Economic Development
Pouch D
Juneau, AK 99811
465-2502
Position Statement: Explanation of and philosophy behind HB 109

Judith Maier
16995 Glacier Highway
Juneau, AK 99801
789-9229
Position Statement: Observer

Keith Levy
Division of Legal Services
Pouch Y
Juneau, AK 99811
465-3867

Position Statement: Explained legal language of CS for HB 59

Steve Frank, Representative
Alaska State Legislature
Pouch V
Juneau, AK 99811
465-3709

Position Statement: Observer

PREVIOUS ACTION

Please refer to House Special Committee on
State Loans minutes of February 12, 1985.

ACTION NARRATIVE

TAPE #7, SIDE ONE
Recording
Number 001

The meeting was called to order at 3:35
p.m. by Chairman Sund. In attendance were
Representatives Cotten, Fuller, and Frank.
Representatives Duncan and Uehling arrived
at 3:40 p.m.

Number 020

Chairman Sund said that he would prefer to
amend HB 59 to be a grant instead of loan
program for youth hostels, and hold HB 61 in
committee.

Number 062

Representative M.M. Miller testified that he
favors the idea of an amendment or committee
substitute, as long as it would not
jeopardize the bill's chances in Finance
Committee.

Number 083

There was discussion and general agreement
among committee members that a grant
appropriation would be preferable to
administering a special low-interest loan
program.

Number 127

Keith Levy, of Legal Services, explained
changes in the language of the bill to allow
for an appropriation to DNR, Division of
Parks, for youth hostel grants.

Number 175

Representative Duncan moved to report out a
CS, incorporating the change from a loan to
a grant, with an effective date of July 1,
1985.

Number 191

The motion was passed with unanimous

consent, and HB 59 was passed out of committee with individual recommendations.

Number 210

Chairman Sund opened the meeting for DCED testimony on HB 109.

Number 216

Mr. Terry Elder, Deputy Commissioner for DCED, explained the philosophy behind HB 109. He said that the bill does 2 things:

(1) eliminates statutorily fixed rates of interest on DCED loans and replaces them with a formula; and

(2) returns the income generated by the loans to the general fund.

He explained that the U.S. treasury yield curve is used to establish the base rate, to which is added administrative fees and a risk adjustment, minus the subsidy. He added that DCED is more concerned with the formula than with the specific numbers. DCED used 125 basis points for the risk adjustment, 75 basis points for the administrative fee and 300 basis points for the subsidy, but that these numbers can be changed according to what the legislature feels is appropriate. He said that the U.S. treasury yield curve is a standard of comparison within the financial community, published monthly, and that interest rates vary depending on the term of the loan.

Number 340

Representative Cotten asked why the risk component is in the formula, if there is a different risk for each of the programs.

Number 346

Mr. Elder answered that most programs are created by the legislature and that the legislature should determine the risk factor for each program. He emphasized that DCED is more concerned with getting the formula itself in place. He went on to say that the philosophy behind the administrative fee is that the beneficiaries of a subsidized loan program should pay for the administration of the program. 75 basis points covers both the origination and the servicing of the loans, whereas most lending institutions have a separate loan origination fee.

Number 407

Chairman Sund asked if DCED would consider classifying loans according to their level

of subsidy.

Number 415

Mr. Elder answered that it would be better to deal with the loan programs one at a time, and decide what subsidy that particular program should have.

Number 440

Representative Uehling asked if it wouldn't be simpler to standardize across all loan programs, instead of working it out separately for each program.

Number 453

Mr. Elder expressed the view that the formula isn't complicated, and that it allows the legislature to decide the level of subsidy based on the social value of the program. He went on to say that putting the interest, administrative fees and the risk factor back into the general fund would require DCED to come back to the legislature more often for funding the loan programs, which is a positive thing.

Number 543

There was some discussion regarding DCED loans with other loan programs, which are tied either to the market or to the cost of funds.

Number 564

There was some discussion regarding which loan programs are still active.

CHANGE TAPE #7, SIDE TWO

Number 001

Representative Uehling asked if DCED has considered repealing or consolidating some of the loan programs.

Number 019

Mr. Elder responded that most of the loan programs are created by the legislature, and that DCED just administers them. He said that DCED does not usually make recommendations unless a program is inactive.

Number 068

Representative Duncan suggested that some loan programs will no longer be in demand if the interest rates go up. He used as an example the child care revolving loan fund. He said that child care is a low-profit business, and would not be possible if borrowers had to pay high interest.

Number 088

Mr. Elder responded the legislature could choose to have a larger subsidy for such a

program.

Number 190

Chairman Sund announced his intention to introduce a bill concerning the Alaska Power Authority and hydro loan issues and made further announcements regarding the next week's meetings dealing with student loan bills.

Number 240

The meeting was adjourned at 4:32 p.m.

CONVERT EQUITY INVESTMENT

July 1, 1989
(20-YEAR)

5-YEAR PAYOFF }
LABOR REVENUE

Introduced: 1/23/85
Referred: House Special Committee on
State Loans and Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

HOUSE BILL NO. 102

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

6 For an Act entitled: "An Act relating to the Alaska Resources Corporation;
7 and providing for an effective date."

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

9 * Section 1. AS 37.12.071 is amended to read:

10 Sec. 37.12.071. ADDITIONAL POWERS. Notwithstanding other pro-
11 visions of law governing disposal of state property, the board may, at
12 either public or private sale, dispose of the assets of the corpora-
13 tion as required in AS 37.12.075. Disposal must be made in a manner
14 that serves the best interests of the state, and may include amortiza-
15 tion of payments (over a period of years), ~~but may not be by lease.~~ ^{NOT TO EXCEED 25 YEARS} In
16 addition, the corporation may spend money to protect the assets of the
17 corporation.

ARC.

18 * Sec. 2. AS 37.12.075 is amended to read:

19 Sec. 37.12.075. DUTIES. (a) In carrying out the purposes of
20 this chapter the board shall

21 (1) contract with the Department of Revenue to manage the
22 assets of the corporation;

23 (2) divest the corporation of all equity investments by
24 July 1, 1989; and

25 (3) divest the corporation of all other remaining assets,
26 with the exception of the outstanding loan portfolio, by July 1, 1989.

27 (b) In divesting the corporation of equity investments, the
28 board may convert the equity investment of the corporation in a par-
29 ticular enterprise to debt, if the governing board of the ^{PURCHASING} enterprise

(Sales) QUESTIONS OWNS
3RD PARTY CONCERNING EQUITY TO DEBT. Approve
PURCHASING

1 approves the conversion. The debt created by the conversion must
2 become part of the outstanding loan portfolio of the corporation.
3 * Sec. 3. This Act takes effect immediately in accordance with AS 01.-
4 10.070(c).

ALASKA RESOURCES CORPORATION (ARC) *

Department of Revenue, Instrumentality
4th QUARTER FY 84

	Approved During the Quarter		Denied During the Quarter		Approved During FY 84 to Date		Loans Outstanding To Date	
	#	\$	#	\$	#	\$	#	\$
Agriculture	0	\$ 0	0	\$0	0	\$ 0	3	\$ 258,048
Commercial Fish Processors' Assistance Fund	0	\$ 0	0	\$0	0	0	7	\$ 8,198,894
Fisheries	0	\$ 0	0	\$0	1	\$ 498,000	17	\$ 3,694,096
Forest Assistance	0	\$ 0	0	\$0	0	\$ 0	12	\$ 5,265,066
Forest Products*	0	\$ 0	0	\$0	10	\$1,000,000	13	\$ 1,318,875
Manufacturing	0	\$ 0	0	\$0	0	\$ 0	2	\$ 370,000
Total	0	\$ 0	0	\$0	11	\$1,498,000	54	\$19,104,979

* Due to reorganization, 4th quarter information was not available from ARC. The information appearing on the next two pages is from the 3rd quarter, FY 84.

** The loans approved during 1984 to date are additional disbursements on existing loans.

ALASKA RESOURCES CORPORATION (cont.)

DELINQUENCY AT THE END OF THE QUARTER

1-30 DAYS		31-60 DAYS		61-90 DAYS		91+ DAYS	
#	\$	#	\$	#	\$	#	\$
NA*	NA*	0	\$0	1	\$ 23,654	10	\$2,196,847

LOANS IN DEFAULT**

#	\$
5	\$3,575,819

NUMBER OF LOANS AWARDED DURING THE QUARTER, BY RANGE

\$0-50,000	\$50,001-100,000	\$100,001+
0	0	0

MEAN LOAN AMOUNT DURING THE QUARTER

0

*ARC considers loans to be current until the 31st day of delinquency. In previous loan reports, delinquency may have been overstated as these loans were classified as delinquent.

**Loans in default are defined as delinquent loans that have been turned over to counsel for legal action.

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 23, 1985

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Grussendorf:


Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the divestiture of assets and equity investments of the Alaska Resources Corporation (ARC).

Section 1 of the bill permits the board to dispose of assets, including those acquired through default or foreclosure, in any manner that serves the best interests of the state, including extended payments over time.

Section 2 of the bill permits the board to convert its equity investments into debt, which will then be treated in the same manner as the corporation's current outstanding loan portfolio.

This bill is necessary to permit the ARC board the flexibility necessary to wind up the corporation's affairs by 1989, in accordance with ch. 161, SLA 1984.

Sincerely,



Bill Sheffield
Governor

LEGISLATIVE SESSION

FISCAL NOTE

Revision Date _____

REQUEST

Bill/Resolution No: HB 102
 Title: Relating to Alaska Resources Corporation
 Sponsor: Governor
 Requestor: _____
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Department of Revenue
 Program Category Affected: _____
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker *MB*
 Division: Treasury

Phone: 465-2350
 Date: January 7, 1985

Approved by Commissioner: *Henry G. Stenseth*
 Agency: Department of Revenue

Date: 1/7/85

Distribution (by Agency preparing fiscal note):

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

HB102

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811
PHONE:

January 29, 1985

The Honorable John Sund
Chairman
House Special Committee on Loans
Pouch V
Juneau, AK 99811

Dear Mr. Sund:

Ch. 161, SLA 1984 directs the Alaska Resources Corporation (ARC) to divest all its assets, except its loan portfolio, by July 1, 1989. ARC's assets to be divested include equity in various corporations and assets acquired in foreclosure of ARC loans. Several of the enterprises in which ARC has invested are in bankruptcy proceedings. Several of the foreclosed properties are not currently operating as businesses and their prospect of doing so is uncertain.

Under these circumstances, bank or other outside financing for a potential buyer to purchase ARC equity or foreclosed properties may not be available or available on reasonable terms. The only means of financing the purchase may be for ARC to take a promissory note for all or part of the purchase price. In some cases, the only interested buyer of ARC equity may be the corporation in which ARC has invested. In this case, conversion of equity to debt is tantamount to taking a note on sale.

HB 102 would authorize ARC to take a note on sale or enter into an installment sale contract as well as to convert equity to debt. This is a necessary tool which will be used only when a cash buyout for ARC cannot be negotiated.

The ARC board of directors has endorsed this legislation.

Hon. John Sund
January 29, 1985
Page 2

Enclosed is a summary of ARC's various investments. Detailed information on credit status of investments is not provided because of confidentiality requirements.

Sincerely yours,



Milt Barker
Deputy Commissioner of Treasury

BM/gb

Enclosure

cc: The Honorable Mary A. Nordale

TABLE

Alaska Resources Corporation
Business Investments as of 6-30-84

	<u>Original Debt</u>	<u>Current ARC Equity</u>	<u>Percent ARC Ownership</u>	<u>Total ARC Debt & Equity</u>
ACT 1 (Alaska Fish)	\$ 125,000	\$ 125,000	13%	\$ 250,000
Alaska Timber Corp.	1,500,000			1,500,000
Alyeska Candy Kitchen	37,600			37,600
American Eagle Seafoods	200,000			200,000
Anchor Renewable Farms	120,404			120,404
Anchorage Tank & Welding	370,000			370,000
Arctic Frost Seafoods	19,200			19,200
Ball Brothers	4,169,095	500,000	40	4,669,095
Clark, Inc.	395,000	25,000	1	420,000
Icicle Seafoods, Inc.	2,300,000	<u>2,222,622</u>	39	4,522,622
Kachemak Seafoods	256,092			256,092
Kokechik, Inc.	300,000	490	49	300,490
Pacific Forest Products	6,765,065			6,765,065
Rice Fur Farm	115,000			115,000
Salamatof Seafoods	3,065,350	<u>976,264</u>	35	4,041,614
Sayles Marine	156,126			156,126
Seaward Shipyard	590,000	150,000	22	740,000
Smaragd Partners	490,000			490,000
Steik Enterprises	55,000			55,000
Sterling Seafoods	125,000	100,000	49	225,000
Trinity Resources		206,100	32	206,100
Wyman	<u>1,000,000</u>			<u>1,000,000</u>
TOTAL INVESTMENTS	\$21,380,444 ^{1/}	\$4,305,476		\$25,685,919
Assets acquired through foreclosure less valuation allowance of \$7,653,647				4,362,364
Less allowance for doubtful collections	(13,298,256)			(13,298,256)
Less valuation allowance		<u>(2,032,754)</u>		<u>(2,032,754)</u>
TOTAL BUSINESS INVESTMENT ASSETS	\$ 8,082,188	\$2,272,722		\$14,717,273

Investment Status: 12 loans delinquent - \$3,174,422; 6 companies bankrupt - \$17,520,774.

^{1/} Total is debt outstanding and does not equal total Original Debt.