

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1346 SCOMM 50: HOUSE SPECIAL COMMITTEE ON STATE LOANS 1985-86



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James O. Smith
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Alaska State Legislature



House of Representatives

Committee on Loans

POUCH V
JUNEAU, ALASKA 99811

PHONE
[907] 465-4919
[907] 465-4920

TUESDAY, 3/26/85, 3:30 p.m.
Room 124 (House Judiciary)

SB 186 "An Act authorizing the governor to lend up to \$3,400,000 from the disaster relief fund for a breakwater failure on St. Paul Island; and providing for an effective date."

Hearing: RED DOG MINE

WEDNESDAY, 3/27/85
Room 124 (House Judiciary)

Hearing: RED DOG MINE

For more information, contact JOHN HARTLE
465-4919
CAPITOL ROOM 411

Introduced: 2/22/85
Referred: State Affairs and
Finance

1 IN THE SENATE

BY ZHAROFF AND COGHILL

2

SENATE BILL NO. 186

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act authorizing the governor to lend up to
\$3,400,000 from the disaster relief fund for a break-
water failure on St. Paul Island; and providing for
an effective date."

9

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

11

* Section 1. The governor is authorized to lend up to \$3,400,000 to the
Department of Administration, division of risk management, from the assets
of the disaster relief fund (AS 44.19.048) to alleviate the effects of a
breakwater failure on St. Paul Island.

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* Sec. 2. A loan made under the authority of sec. 1 of this Act shall
be made on the condition that the Department of Administration, division of
risk management, repay to the disaster relief fund the proceeds of insur-
ance payments received as a result of the breakwater failure on St. Paul
Island. ON OR BEFORE DEC 31, 1986

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* Sec. 3. The authority given by sec. 1 of this Act terminates June 30,
1985.

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* Sec. 4. This Act takes effect immediately in accordance with AS 01.-
10.070(c).

23

RAINY DAY DIV
COVERAGE RISKS 90 DAYS

3.4 MILLION DOLLARS

MEMORANDUM:

TO: John Hartle
FROM: Michael Thill
RE: SB 186

Contact persons for explanation and information pertaining to the bill:

- 1) Clark Gruening 586-8110
(representing City of St Paul)
- 2) Anselm Staack: 2200
(Dept of Admin)
- 3) Brad Thompson: 2180
(Div of Risk Management)
- 4) Vern McCorkle, (907) 546-2331
City Manager, St Paul, Alaska

Estimate to repair damage to Phase I of the St Paul Breakwater:

\$4,000,000	
- 600,000	(\$300,000 deductible per occurrence x 2 occurrences)
<u>\$3,400,000</u>	

SB 186: St Paul Breakwater

The purpose of this legislation is to provide for a loan from the Disaster Relief Fund to the Division of Risk Management to alleviate the effects of a breakwater failure on St. Paul Island. During Mid November and again in early December, the phase I construction of the St Paul Breakwater was subjected to 2 major winter storms which caused significant damage.

This project is covered by insurance from both the Division of Risk Management and the contractor and the loan of \$3.4 million will be repaid from the proceeds of the insurance settlement.

This temporary loan will enable repairs to be made to phase I of the breakwater project and insure that valuable construction time will not be lost waiting for the insurance settlement. Passage of this bill will allow the project to proceed within the 1985 construction "window" and preserve a \$2.5 million dollar federal EDA grant for the construction of the dock. This federal grant is conditioned upon portions of the project being completed by June 30th. Additionally, as a condition of the loan, the City of St Paul has agreed to relinquish all claims to the insurance settlement thus insuring that the money will be repaid to the disaster relief fund.

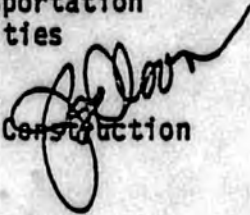
The presence of a harbor in the Bering Sea is of vital concern for the economic development of the region and will also expedite the development of the worlds greatest whitefish resource.

MEMORANDUM

SB ~~422~~ 186
State of Alaska

TO: Anselm Staack
Deputy Commissioner
Administrative Management
Department of Administration

THRU: William R. Snell 
Acting Deputy Commissioner
Central Region
Department of Transportation
and Public Facilities

FROM: John B. Olson, P.E. 
Director, Design & Construction
Central Region

DATE: February 6, 1985

FILE NO: 220C

TELEPHONE NO: 266-1500

SUBJECT: Involvement of Risk
Management with St.
Paul Breakwater

The events leading up to the Department of Transportation and Public Facilities' (DOT&PF) contact with Risk Management focused primarily on the assessment of damage. Technical analyses to determine why the Breakwater failed were critical, in view of the fact that the City of St. Paul had opened bids for Phase II construction and was scheduled to award the contract in mid-December. Tetra Tech, Inc., was hired to perform the technical analysis.

Following the decision to have the City of St. Paul cancel the contract award for Phase II, the Department and the City began to explore ways to fund the restoration of Phase I of the Breakwater.

During the week of January 14, 1985, Risk Management was asked to assist the Department in exploring its options with regard to Phase I. Several conversations followed and an exchange of information took place. On January 29, 1985, Brad Thompson of Risk Management met with representatives of the City of St. Paul and DOT&PF to determine the best way to proceed to restore the Breakwater to its pre-storm condition.

It was decided that the Division of Risk Management through DOT&PF would solicit an estimate to reconstruct the facility to its pre-storm condition. The Department has identified a list of potential consultants to prepare this estimate.

The initial estimate given to DOT&PF to restore the Breakwater is \$4.0 million. A more specific estimate will be developed as a result of comprehensive field investigation.

MEH/bgc

cc: Clark Gruening, Smith, Robinsons & Gruening, Juneau
Brad Thompson, Claims Manager, Risk Management, OOA
Warren Sparks, Deputy Commissioner, Headquarters

APPENDIX A

ST. PAUL HISTORY

The significant events surrounding the construction of the St. Paul Breakwater the storm damage and the time frame of reconstruction.

<u>DATE</u>	<u>EVENT</u>
	Construction contract awarded to Calista Corp.
	Problems arose in production of large armor stone, construction temporarily halted.
	Construction proceeded with modified (berm) breakwater design.
	Completion of Phase 1 construction was accepted for payment.
10/15/84	Breakwater began to show signs of readjusting to a moderate wave climate.
11/13/84-11/14/84	Breakwater was subjected to a major storm which significantly damaged the outer 350'.
11/19/84	City of St. Paul contacted DOT&PF for assistance on confronting the problem.
11/30/84	DOT&PF signed an agreement with Tetra Tech Inc., using an existing Term Contract, to conduct an assessment of the damage and determine the probable cause(s) of failure.
12/07/84-12/08/84	The breakwater was subjected to a second major storm which destroyed an additional 150'-200'. At this time the head portion of the breakwater had receded from an original station 9+00 to station 4+25.
12/31/84	First draft of final Tetra Tech Inc report was received for review.
01/14/85	DOT&PF contacted Risk Management to ascertain the States insurance alternatives for reconstruction of the breakwater.

01/21/85

Final Tetra Tech Inc. report was delivered to DOT&PF.

City of St. Paul contracted with DePue & Associates to develop alternative dock designs.

City of St. Paul contracted with Tetra Tech Inc. to develop alternative designs and estimates for reconstructing the breakwater and continuation of phase 2 construction.

01/29/85

DOT&PF, City of St. Paul, and Risk Management met to discuss the current status of the breakwater and determine what involvements between the agencies is necessary to meet the critical time frame for construction and preservation of the EDA grant.

TENTATIVE SCHEDULE TO MEET 1985 CONSTRUCTION WINDOW AND FULFILL GRANT REQUIREMENTS.

02/15/85

Select from alternative designs of breakwaters and docks.

02/28/85

Contract for A/E services to develop final design, drawings, and specifications for breakwater and dock.

03/01/85-03/15/85

Field investigations (detailed bathymetry, geotech, etc.)

03/15/85-04/30/85

Hydraulic Model Studies

03/01/85-04/15/85

Develop final design, construction, and bid documents

04/16/85-06/01/85

Advertise and award

06/15/85

Begin construction

11/15/85

Complete construction



TETRA TECH, INC.
A MEMBER OF THE TETRA GROUP
3315 ARTHUR BOULEVARD
ALBUQUERQUE, NM 87106
TELEPHONE (505) 261-8141

4 February 1985

Mr. Vern McCorkle
City Manager
City of St. Paul
St. Paul, Alaska

Dear Mr. McCorkle:

The following is a summarization of our analysis of the Saint Paul Harbor Project:

1. Estimated Costs to Re-build Phase I

	<u>w/o contingencies E&D and S&A</u>	<u>w/contingencies E&D and S&A</u>
a) to Norgaard's Original Design	\$4.02 million	\$4.74 million
b) Norgaard's A-B Design	3.40 million	4.01 million
c) to Tetra Tech's Preliminary Design	4.95 million	5.84 million

Basis of costs are shown on the attached sheets for (a) and (b). Unit prices are from Phase 2 bid summaries and quantity estimates assume that existing material from damaged section can be incorporated into the core. We have added the costs for mob/demobs, camps and have road maintenance which were not included in our original \$3 million estimate.

2. Extent of \$9.0 Million Breakwater Project

Using Tetra Tech's preliminary x-section, breakwater repairs and extension to about STA 14+00 can be accomplished for \$9 million. A head section incorporating 30-ton concrete dolos armor units and a trunk section using 14-ton stone on a 1:4 slope were used in this estimate. A project of this magnitude could protect a 200-foot barge dock while providing a 20' draft along the berth. Dredging of the harbor for the removal of washed out breakwater material would be required. Wave heights of about four feet along the berth would be expected several times per year during storm conditions. The evaluation of using a concrete caisson for the head section instead of the 30-ton dolos units may substantially affect the total possible breakwater length. Model testing of the caisson and our preliminary design for the trunk section is also required. We are presently investigating

Mr. Vern McCorkle
4 February 1985
Page two

the caisson alternative, but a precise construction cost estimate will be difficult. In summary, we are confident that a 1200- to 1500-foot breakwater can be constructed with a \$9.0 million budget. Estimated construction time for this project is seven months.

3. Estimated Costs for Re-build to Original Phase I/Phase II Project

Using Tetra Tech's preliminary design x-section and extending the project to STA 20+50 as shown in the Phase II construction drawings would cost about \$12.63 million in construction. Including a 5% contingency and allowances for engineering and design and supervision and administration would necessitate a \$14.9 million project budget. Estimated construction time for this project is 13 months, hence a two-season construction program would be needed.

4. Alternative X-Section Designs

We have examined six alternative cross-sections plus Norgaard's trunk and head section designs. Based on the 25-foot design wave, Norgaard's original design would expect considerable damage (about 20% or more). The other six designs are expected to sustain about 0 to 5% damage on an annual basis, but model tests of some alternatives are necessary to verify this damage estimate. We are presently evaluating a caisson section for use as the breakwater head. This may be similar in cost to a rubblemound dolos protected head section but afford an additional 50 feet of breakwater length. See attached table for a summary of x-sections examined.

I would like to emphasize that some of our designs can only be verified by scale model testing. We have preliminary sections drawn, along with a plan of the project to STA 14+00, which can be made available for your use if you feel they would be of any assistance. Once Tetra Tech, or possibly some other firm, is given a notice to proceed with the development of detailed plans and specifications, it will take approximately four weeks to have them ready for bid. Also, if the dock facilities are to be incorporated in this project, a subsoil investigation of the harbor bottom must be completed. Tetra Tech would be pleased to act as St. Paul's agent for this work, or if you desire to contract directly for this work we will recommend firms specializing in this type of work.

If you have any questions, please don't hesitate to give me a call at 564-8144.

Sincerely,

TETRA TECH, INC.


Robert H. Taylor
Manager, Alaska Operations

RHT:rd

Enclosures

cc: Tony Smith, Attorney

(45-BUILT)



OR NAME ST PAUL

08.VUM922 TC-3023

PRELIMINARY ☐ FINAL ☒

BY J. W. DATE 11/20/25

CHECK A73 DATE 11/31/25

CONSTRUCTION COST ESTIMATE - SHEET NO. _____ OF _____

DOB NAME ST. PAUL

ASAC NUMER: TC-3023

PRELIMINARY ☐ FINAL ☒

BY SW DATE 1/30/85

CHECK 475 DATE 1/21/85

CONSTRUCTION COST ESTIMATE, SHEET NO. ____ OF ____

INC.
PASADENA, CALIF.

SUMMARY

FILE NO TC 3023

COMPUTED

CHECKED

DATE PAGE OF PAGES

ALTERNATIVE	COSTS/FT	CREST EL.	USEABLE ROADWAY	REMARKS
a. NORGGAARD SECTION C 12-ton ARMOR	\$ 5090	+30	30'	DAMAGE = 15-20% UNDER 25' DESIGN WAVE
b. NORGGAARD HEAD 18-ton ARMOR	7800	+30	30'	DAMAGE > 50% UNDER 25' DESIGN WAVE
1. ALT. 1 14-ton stone 1:4 slope	8000	+37	40'	VERY WIDE STRUCTURE MAY ENCRUSH ON HARBOR CREST EL. REQUIRES MODEL TEST
2. ALT 2 18-ton stone 1:3 slope	7100	+30	none	18-TON PROBABLY NOT AVAILABLE IN REQ'D QUAN.
3. ALT 3 30-ton dolos 1:2 slope	11600	+30	none	USE FOR HEAD SECTION. OVERTOPPED
4. ALT 4 20-ton dolos 1:2 slope	11000	+30	none	USE FOR TRUNK OVERTOPPED
5. ALT 5 4 1/2-ton tetrapod 1:1.5 slope	10300	+38	8'	CREST REQUIRES MODEL TEST
6. ALT 6 14-ton stone composite	6400	+40	30'	MODEL TEST NEEDED TO EVALUATE STABILITY
7. CAISSON	UNDER	EVALUATION		

§ 44.19.046

lieutenant governor shall appoint, departments of the need to the office of nor becomes vacant. majority of the mem- e person designated office of lieutenant If the person desig- ne appointment, the mation in the same 174 SLA 1959)

and Employees, §§ 109, 7. tes. §§ 94 to 101.

ancy occurs in the eutenant governor rt. III, § 11, of the otherwise becomes he office of lieuten- ds to the office of vacated, or until a nder AS 44.19.040 ernor shall appoint ernor in case of a

cond vacancy in utenant governor e constitution and term, the office of utenant governor al election to elect 174 SLA 1959)

pecial election, see AS

ncies in the office r simultaneously,

§ 44.19.048

STATE GOVERNMENT

§ 44.19.048

the person appointed under AS 44.19.040 succeeds directly to the office of acting governor until successors to the respective offices are elected in a special election. (§ 5 ch 174 SLA 1959)

Revisor's notes. — Formerly AS 44.19.150. Renumbered in 1980. and time of calling special election, see AS 15.40.230.
Cross references. — As to condition

Article 3. Disaster and Emergency Relief Funds.

Section	Section
48. Disaster relief fund	50. Definition
49. Grants and loans to municipalities damaged by natural disaster	52. Fuel emergency fund

Revisor's notes. — In 1980, the sections of this chapter were extensively renumbered. For derivations of current sections and current disposition of former sections consult the parallel reference table at the beginning of this title and the Table of Sections Amended, Etc. in binder no. 8.

Sec. 44.19.048. Disaster relief fund. (a) There is in the Office of the Governor a disaster relief fund. The Department of Revenue is custodian of the fund.

(b) Subject to the restrictions of (d) and (e) of this section, the governor may, without additional legislative authorization, expend not more than \$1,000,000 of the assets of the disaster relief fund for the following purposes:

(1) to implement provisions of law relating to disaster relief in the case of a disaster as defined in AS 44.19.050 occurring after October 11, 1967;

(2) to alleviate the effects of a disaster as defined in AS 44.19.050 occurring after October 11, 1967, by making loans or grants to persons or municipalities on terms the governor considers appropriate or by other means the governor considers appropriate.

(c) Subject to the restrictions of (d) and (e) of this section, the governor may, without additional legislative authorization, expend for any fiscal year not more than \$500,000 of the assets of the disaster relief fund to prevent or minimize the effects of an event which occurs in any part of the state after October 11, 1967 and which, in the determination of the governor, poses a direct and imminent threat of resulting in a disaster of sufficient magnitude and severity to justify state action.

(d) Expenditures authorized by the legislature to alleviate effects of the natural disaster occurring on August 14, 1967 shall be reimbursed to the general fund from the disaster relief fund before any other expenditures may be made from the disaster relief fund.

(e) The governor shall present to the legislature an annual accounting of money expended from the disaster relief fund. (§ 1 ch 25 FSSLA 1967; am §§ 4, 5 ch 104 SLA 1977; am § 10 ch 116 SLA 1980)

Revisor's notes. — Formerly AS 44.19.171. Renumbered in 1980. Cross references. — As to the Alaska Disaster Act, see AS 26.23.010 et seq.

Sec. 44.19.049. Grants and loans to municipalities damaged by natural disaster. (a) Grants and loans for urban renewal shall be made available to municipalities damaged by disasters occurring in the state after August 1, 1967 in order to match federal funds under federal urban renewal programs. A grant or loan of state funds to a municipality for an urban renewal program under this section may not exceed 25 percent of the aggregate of the net project costs of the urban renewal project. Funds shall be made available to a municipality to match federal funds only if the urban renewal project is made necessary by the disaster.

(b) The funds for the grants or loans under this section shall come from the disaster relief fund provided for in AS 44.19.048 — 44.19.050.

(c) No urban renewal project costing over \$30,000,000 is eligible for grants or loans under this section.

(d) The governor shall determine the eligibility of a municipality for a grant and loan of funds to match federal funds for urban renewal. In making the determination the governor shall consider the following standards:

(1) the amount of participating money available from the United States government for urban renewal;

(2) the amount and availability of funds from other sources to meet the municipality's required contribution of matching funds;

(3) whether or not the urban renewal project was made necessary by a disaster;

(4) the needs of other municipalities damaged by the disaster for funds to match federal funds for urban renewal projects, and the urgency of the needs of other communities as compared with the community under consideration;

(5) the cost of the urban renewal project;

(6) the general welfare of the state and its inhabitants.

(e) A report of activity under this section shall be made to the legislature each year.

(f) The governor shall determine the terms and conditions of a loan made under this section.

(g) In this section "disaster" means a disaster proclaimed by the President of the United States. (§ 1 ch 20 FSSLA 1967; am § 1 ch 171 SLA 1970; am §§ 7-10 ch 104 SLA 1977)

Revisor's
44.19.177. Renu

Sec. 44.19.050. "Disaster" means damage, injury, loss of life or property, or man-made or natural disaster, including landslide, avalanche, oil spill or other hazard, or avert damage, pest infestation, etc. (SLA 1977)

Revisor's n
44.19.175. Renu

Sec. 44.19.051. Office of the Governor determines the assistance to be provided to a city to purchase a disaster relief fund.

Revisor's n
44.19.179. Renu

Section

54. State Geogr.
56. Composition
58. Duties of bo
59. Alaska Nati

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Sec. 44.19.052. The Governor

Revisor's n
44.19.350. Renu

§ 44.19.049

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§ 1 ch 171

§ 44.19.050

STATE GOVERNMENT

§ 44.19.054

Revisor's notes. Formerly AS
44.19.177. Renumbered in 1980.

Sec. 44.19.050. Definition. In AS 44.19.048 and 44.19.049, "disaster" means the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or man-made cause including, but not limited to, fire, flood, earthquake, landslide, avalanche, wind-driven water, weather condition, tsunami, oil spill or other water contamination requiring emergency action to avert damage, volcanic activity, epidemic, air contamination, blight, infestation, explosion, or riot. (§ 1 ch 25 FSSLA 1967; am § 6 ch 104 SLA 1977)

Revisor's notes. — Formerly AS
44.19.175. Renumbered in 1980.

Sec. 44.19.052. Fuel emergency fund. There is established in the Office of the Governor the fuel emergency fund. When the governor determines that a shortage of fuel is sufficiently severe to justify state assistance the governor may make a grant from the fuel emergency fund to a city or borough, or to a village or unincorporated community, to purchase emergency supplies of fuel. (§ 37 ch 83 SLA 1980)

Revisor's notes. — Formerly AS
44.19.179. Renumbered in 1980.

Article 4. State Geographic Board.

Section

- 54. State Geographic Board
- 56. Composition
- 58. Duties of board
- 59. Alaska Native place names

Section

- 60. Use of names chosen
- 62. Advertising or publishing a name without approval

Revisor's notes. — In 1980, the sections of this chapter were extensively renumbered. For derivations of current sections and current disposition of former

sections consult the parallel reference table at the beginning of this title and the Table of Sections Amended, Etc. in binder no. 8.

Sec. 44.19.054. State Geographic Board. There is in the Office of the Governor a State Geographic Board. (§ 1 ch 119 SLA 1961)

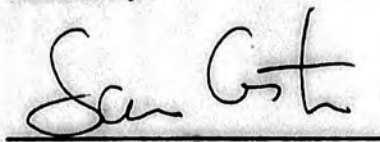
Revisor's notes. — Formerly AS
44.19.350. Renumbered in 1980.

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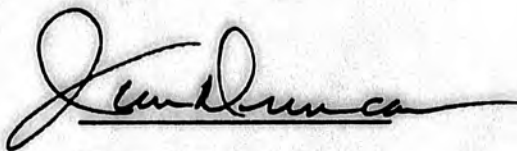
LETTER OF INTENT
HOUSE SPECIAL COMMITTEE ON STATE LOANS

Senate Bill 186 - "An act authorizing the governor to lend up to \$3,400,000 from the disaster relief fund for a breakwater failure on St. Paul Island; and providing for an effective date."

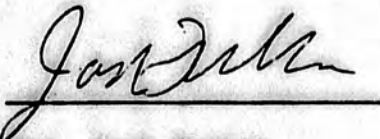
It is the Intent of the Legislature that, in order to ensure that all money will be repaid to the State of Alaska, Disaster Relief Fund, and the Division of Risk Management for the States' insurance deductible, as a condition of this loan for reconstruction of the Saint Paul Breakwater, the City of Saint Paul must agree to subrogate, up to a total of four million dollars, all claims to any insurance settlements from the breakwater failure.



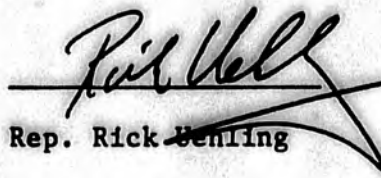
Rep. Sam Cotten



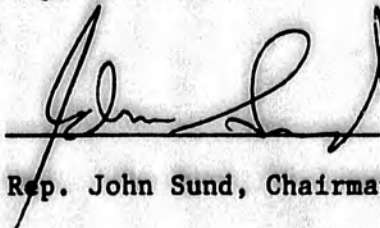
Rep. Jim Duncan



Rep. Jack Fuller



Rep. Rick Henling



Rep. John Sund, Chairman

3/29

FURTHER: FINANCE

Date: 3/26/85

HOUSE SPECIAL COMMITTEE
ON STATE LOANS

SB 186

[X] do pass [] do not pass

[] do pass with attached amendments(s)

[] replace with CS for _____ [] same title
[] new title

and recommends _____

[X] AND attaches a "Letter of Intent" [] New Fiscal Note
[] Zero Fiscal Note Attached

[] reports it back without recommendation

[] referred to the _____ Committee

MEMBERS HAVING
OTHER RECOMMENDATIONS:

LEHLING Fred (No. 10)
FULLER John (No. 1)

CHAIRMAN



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

SCOMM

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Alaska

HOUSING



FINANCE CORPORATION

April 24, 1986

The Honorable John L. Sund
Alaska State Representative
House of Representatives
Post Office Box V
Juneau, AK 99811

Dear Representative Sund:

The purpose of this letter is to provide comments on CS SB 281 (FIN) am, which is now in the House Special Committee on Loans. As you know, this bill would increase the interest rate on all loans (except student loans) made by the state, or instrumentalities of the state, by one-half percent per year until the loans are at market rates or cost of funds. With respect to AHFC, it is not entirely clear how this would apply, as is explained in Attachment II.

In any case, the eventual effect of the bill would clearly be to by and large eliminate AHFC as a viable source of home financing in Alaska. Before proceeding I think it is useful to note that during its existence AHFC has helped over 65,000 families buy homes, and has provided over \$5 billion worth of home financing including over \$2.5 billion worth of new home construction. Further, AHFC has generally functioned as a "shock absorber", in that the Corporation has protected Alaskan homebuyers from extremely high interest rates and the resultant decrease in equity and inability to purchase homes caused by high rates.

It is important to realize that it is quite possible that the negative impacts of this bill will be felt immediately, rather than some time off in the future. The reason for this is that both insurers and investors must look at a financial transaction over a long time period, rather than just basing their decisions on current situations. Furthermore, they have to consider what happens in the "worst case", rather than assuming that favorable trends, such as low interest rates, will continue on into the future. In general, the points that are discussed below deal with the effects on the confidence of insurers and investors. Since there are no absolute relationships in measuring confidence, it is impossible to predict with certainty what the impact of SB 281 will be. However, all of the possible consequences discussed below should be viewed as strong possibilities.

The first effects considered will be on mortgage insurance. All mortgage loans made by AHFC that have a loan-to-value ratio in excess of 80% must have mortgage insurance, either private mortgage insurance (P.M.I.) or government mortgage insurance provided by the Federal Housing Administration (FHA) or the Veterans Administration (VA). I believe any negative effects are much more likely to impact the P.M.I. companies, and so will focus on them.

If SB 281 is passed, AHFC will be taken out of the market. No longer could a P.M.I. company depend upon AHFC to provide a shock absorber against a rapid increase in interest rates, and the resultant decrease in the value of a home because of the higher interest rates. (A person with a median income for Anchorage, \$44,000, can afford a \$96,000 house at 10%, versus a \$82,000 house at 12%). As a result, the P.M.I. companies may be much less willing to provide insurance on loans in Alaska, particularly those loans with high loan-to-value ratios. This is especially important here, since we have the highest proportion of low downpayment loans anywhere in the nation. The national average of loans with a loan-to-value ratio in excess of 90% is about 40%, whereas in Alaska it is over 75%. Furthermore, all of this needs to be viewed in the context of a housing market that is less than robust, to say the least. The worst thing that could happen with respect to private mortgage insurance would be the departure of the four remaining companies from the Alaskan market, or their agreeing to only insure loans with a loan-to-value ratio of 80% or less (the effect is the same). An intermediate possibility is to only insure loans with a 90% or less loan-to-value ratio. On our average loan of about \$120,000, this means downpayments ranging from \$6,000 (95% loan), to \$12,000 (90% loan), up to \$24,000 (80% loan). Clearly many potential buyers would be pushed out of the market if such higher downpayments were required.

It is far less likely that either FHA or VA would change their underwriting policies in Alaska since they, like AHFC, have a commitment to assist home financing beyond a strictly financial interest. However, all is not necessarily assured with FHA. Federal allocation authority for FHA will run out very shortly. Congress is in the process of passing a new authorization, but the President may veto it, leaving FHA with no authority to insure new loans until next October (see Attachment I). Also, the President has a proposal to restrict future FHA loans to borrowers earning no more than \$40,000 per year, and in fact the Administration is trying to make this change, and others, effective immediately. The point of all this is that relying too heavily on FHA for mortgage insurance is quite risky, both because of the uncertainty of their allocation authority, and because the program may soon become too restrictive to be of use to most Alaskans.

The next effects considered deal with potential impacts on major secondary market agencies, such as the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). Although these agencies can perform a variety of functions, in the context of this letter it is best to consider them as guarantors of bonds issued to provide financing for home loans. When AHFC purchases a home loan from a local lender, this loan is converted to either a FNMA or a GNMA security. These securities are then pooled, and bonds are sold based upon these FNMA and GNMA securities, which assist in AHFC receiving AAA bond ratings and subsequent low interest rates.

GNMA securities are applied to loans that have government mortgage insurance, i.e., FHA and VA insured loans. GNMA is not likely to pull out of Alaska despite what happens to AHFC. However GNMA has the same allocation uncertainty that plagues FHA. Currently GNMA is out of commitment authority until October. (See Attachment I).

FNMA securities are applied to loans that either have private mortgage insurance, or a loan-to-value ratio of 80% or less. FNMA is not a government agency (though it has close ties with the federal government). As such, FNMA has much more flexibility with respect to whether or not it does business in Alaska, and also with respect to the terms under which it does business. FNMA has already required more restrictive terms on AHFC loans than it previously had. Whether or not it would become even more restrictive (e.g., no 95% loans) or cease doing business up here is unknown. FNMA personnel have been in Alaska recently voicing their concerns about the current market situation. Elimination of AHFC by passage of SB 281 can only intensify their concerns.

Although AHFC does not do business with FHLMC, other lenders in Alaska do. It is likely that its response would be similar to FNMA.

The other major group involved can be loosely classified as the investment community. This would include the rating agencies (Moody's and Standard and Poors), credit providers, and actual bond purchasers. Once again, it is difficult to predict specific reactions, since any effects will result from a change in investor's confidence regarding the financial health of AHFC and the Alaska housing market. However, it should be noted that because of a high level of investor confidence, AHFC has recently been able to provide the lowest (to our knowledge) fixed rate unsubsidized loans in the nation. For example, our last bond sale carried a very unusual provision, a 15 year letter of credit. This provision allowed us to access the much cheaper rates of the Japanese market. This provision is extremely unusual in that letters of credit are rarely written for longer than 7 or 8 years. Our ability to get such a long term agreement, for such a large amount (\$100 million) was based upon the confidence that the letter of credit bank had in AHFC. Without such a high degree of confidence, AHFC, and of course, Alaskan home buyers, would have to pay higher interest rates for home financing.

Next, what about the argument that if AHFC is eliminated, the "private marketplace" will then provide all home financing, albeit at higher interest rates. First, if the private mortgage insurance companies become more restrictive or indeed, even cease doing business in Alaska, that will affect all applicable loans, not just loans sold to AHFC. And of course the possible cut-off and new restrictions on FHA mortgage insurance will also affect all lenders. Hence, the potential problems discussed above, such as the requirement of a 10% or even 20% downpayment, would affect all home loans, not just AHFC loans.

Furthermore, even in the best of circumstances other lenders will not replace specialized AHFC programs, such as the State Veterans preference program, the Home Ownership Assistance program (HOF), and the Mobile Home loan program. These latter two programs in particular provide the only feasible approach for many individuals to purchase their own home.

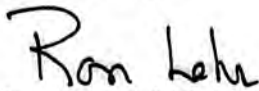
Finally, the question needs to be asked as to why AHFC should be eliminated. Although it is true the state has, in the past, provided considerable resources to AHFC (in excess of \$1 billion), it is also true that AHFC has made good use of these resources (over \$5 billion in loans). More importantly, AHFC has now reached the point that many had hoped for at the outset, in that AHFC is now self-supporting and does not intend to ever come back to the State for additional funding. Further, since AHFC has not requested any funds this year (or last year), no revenue will be gained by passage of this bill.

In fact, the only immediate effect of passage of this bill will be to further disrupt an already slow housing market. And it should be noted that anything that affects a potential purchaser's ability to buy (e.g. increased down-payment) also affects a present owners ability to sell. Hence, even present homeowners would be negatively impacted by passage of this bill.

I apologize for the length of this letter, however this is a complicated, important subject. Purchase of a home generally involves the largest investment and the largest monthly payment for most people, and any action that has a significant effect on home ownership, as this bill will, must be taken most seriously.

If you would like any additional information, please advise me.

Sincerely,

A handwritten signature in cursive script that reads "Ron Lehr".

Dr. Ronald D. Lehr
Executive Director

RDL:sb

Enclosures

The Wall Street Journal
Tuesday, April 22, 1986

House Approves Bill to End Suspension Of Securities Guarantees by Ginnie Mae

By JOANN S. LUBLIN

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The House passed a bill that would end the current suspension of new Government National Mortgage Association guarantees of mortgage-backed securities.

The measure, approved by voice vote, also would prevent the anticipated temporary shutdown next week of the Federal Housing Administration's popular mortgage-insurance program. The Reagan administration opposes the legislation, but the Senate is expected to endorse the House action anyway, possibly this week.

Growing numbers of home purchases and mortgage refinancings, spurred by falling interest rates, have overwhelmed the two Housing and Urban Development Department agencies with business. Two weeks ago, Ginnie Mae had to stop making new guarantees of securities backed by mortgages insured by the FHA and the Veterans Administration because it

reached its \$65.3 billion statutory ceiling for guarantees in fiscal 1986, which ends Sept. 30.

The FHA's mortgage-insurance program faces a similar shutdown as it approaches its \$57.2 billion credit limit for the fiscal year. The House bill, drafted by Rep. Chalmers Wylie (R., Ohio), would raise the Ginnie Mae ceiling to \$100 billion for fiscal 1986 and boost the FHA's credit limit to \$95 billion.

About \$225 billion in mortgage-backed securities outstanding have been guaranteed by Ginnie Mae. The agency helps finance virtually all home loans backed by the FHA and the VA. The cutoff of new Ginnie Mae guarantees already has driven up mortgage rates for government-insured loans. Housing industry leaders warn that by next month, the suspension could severely reduce the supply of these mortgages.

Veto Is Possible

Mr. Reagan might veto the House-approved Ginnie Mae and FHA ceilings on the ground they're too high, however. The House vote came before the administration could formally submit its own legislative proposal, but officials have suggested raising the ceilings to \$87 billion for Ginnie Mae and to \$81 billion for the FHA.

The administration also wants Congress to impose immediately on the FHA various restrictions that President Reagan previously had suggested for next fiscal year. These include limiting the agency to insuring mortgages for families with annual incomes of \$40,000 or less. In addition, the administration would disallow FHA-insured loans for property investors and owners of vacation homes. It also would increase home buyers' mortgage-insurance premiums to 5% from 3.8% of the amount insured.

ATTACHMENT II

Implementation of SB 281 at AHFC

As noted in the letter, it is unclear as to how SB 281 would actually be implemented at AHFC, as there are a number of different ways to interpret the bill. To demonstrate this uncertainty, two possible interpretations will be provided in this attachment. In both cases the following assumptions will be used:

1. Assume the bill has been in effect for two years, hence the decrease in subsidy is 1%; and
2. Market rates/cost of funds for AHFC is 11 1/2%, 1 1/2% above AHFC's "base level" of 10%.

A. "Top Down" Approach

By present law, AHFC can subsidize up to 3%, as long as the loan rate to the borrower is not less than 10%. (Actually, the subsidy only applies to the first \$90,000 of a loan, so for simplicity assume all loans are \$90,000 or less). Using a "top down" interpretation, which I believe is the most common interpretation, the decrease in subsidy applies to AHFC's maximum subsidy, i.e., the 3% figure. In this case, the 1% decrease from the 3% would mean the maximum subsidy would be decreased to 2%. However, this would still permit AHFC to subsidize the 11 1/2% cost of funds down to a 10% loan rate, since this would only be a 1 1/2% subsidy.

B. "Bottom Up" Approach

Again, same assumptions, except that the 1% reduction is now applied directly to the amount that can be subsidized. In this case, rather than subsidizing 1 1/2% to get down to 10%, the "base level" of 10% would effectively be increased by the amount of the decrease in subsidy. Hence the 1 1/2% subsidy is reduced to 1/2%, such that the interest rate to the borrower would be 11%.

Other interpretations are also possible, however the above should indicate that if the bill were to be passed, some clarification would be needed.

Alaska bankers go south to keep capital coming north

By JIM ERICKSON
Daily News business reporter

The skittishness of Outside investors about Alaska's economic stability has local bankers worried whether money will be available to fund large private construction projects in the state.

A delegation of state bankers, businessmen and politicians visited Seattle this week to urge their counterparts to keep the faith in Alaska. A second trip to the Pacific Northwest is planned May 5.

"I had a good friend of mine at United Bank in Tacoma throw a newspaper down on a desk in front of me and say, 'What the hell is this?'" said Earl Miller, president of United Bancorporation Alaska Inc. The headline on a story from a Seattle paper read, "Is Alaska Headed For a Depression?"

"I don't disagree that the question should be asked, explored," Miller said. "But a lot of people never get past the headline."

Widely circulated newspaper sto-

ries about Alaska's economic predicament have made some important Outside investors leery about lending money for new commercial projects here, according to local bankers.

Businessmen here fear the insurance companies, mortgage companies, pension funds and correspondent banks will write the state off as a bad risk amid concerns that the oil-based economy is on the verge of a big fall.

"There's been a kind of a knee-

jerk reaction by a lot of the major lenders in the secondary markets," said Scott Hawkins, economist for Alaska Pacific Bank.

Although bank officials won't talk publicly about specific projects, some bankers confide privately that they know of commercial developments that have been scrubbed recently because potential lenders had second thoughts. Others that had the green light are being reassessed in light of

See Back Page, OUTSIDE

OUTSIDE INVESTORS: Alaskans seek to dispel notions of tottering state economy

Continued from Page A-1

the oil price crash.

"There are some projects that were slam dunks, and now are not slam dunks," Hawkins said.

"It's not only insurance companies and money-center banks, but quasi-governmental lenders like Fannie Mae (Federal National Mortgage Association) and FHA (Federal Housing Administration)," Hawkins said. "They've had more people up here on fact-finding missions in the last three weeks than they have in the last three years."

FHA and Fannie Mae are the main insurers of Alaska home loans.

The new caution threatens to make worse problems in getting funding for office buildings, retail centers and other commercial projects.

Most Alaska banks historically have been relatively cash poor. The state's small population means the pool of depositor funds available for financing is shallow, so bankers must find partners among their larger brethren Outside to share financing.

The largest loan ever made by Alaska banks reportedly was a \$22 million package to help former Wlen Airlines owner James Flood pay off creditors in that company's bankruptcy last year. The deal required the participation of four Alaska banks — no single bank could make the loan on its own and stay within federal lending restrictions.

Yet \$22 million would barely cover the cost of the Dimond Center shopping mall expansion now nearing completion.

To assure a steady source of private funding, bankers here have labored for years to erase the "igloo factor," misconceptions about the state that makes many Outside investors uncomfortable about lending money for projects in a remote part of the world.

"Even at the peak of the boom, we had a major education problem," Hawkins said. In 1983, local banks courted West Coast savings and loan associations, inviting them to the state to see first-hand the boom that was going on.

"They got off the plane and said, 'Wow, you've got concrete foundations.'"

Now, the bad news about falling oil prices, oil industry layoffs and the state's \$1 billion revenue shortfall is threatening to undo all the efforts.

"It takes a long time to get an investor comfortable with Alaska," Miller said. "If we lose them entirely, we'll have to start all over to build their confidence back up again."

However, an official for one large Seattle bank said concern about falling oil prices and the effect on the Alaska economy is but one small factor in a decision to curtail lending here.

"We're not as active in Alaska as we were four years ago, but it's not because we're doing less marketing there," said David

McCormick, vice president for Seattle-based PeoplesBank.

"We see things slowing down in Alaska apart from oil, plus we see our own bank's growth is slowing down," he said. The overbuilt real estate market means potential projects, especially retail centers or office buildings that do not have guaranteed tenants, are not being approved as they might have been when demand was high, he said. His bank is also changing its overall strategy to adjust to banking deregulation, he said.

Oil prices "have an influence," he said. "Some of our board members are asking if we shouldn't be taking an even more conservative stance . . . but oil price may be just one small factor in that decision."

Some trepidation on the part of lenders is justified, both Miller and Hawkins said. Alaskans are facing hard times as government tries to rein in profligate spending patterns of the past, at a time when the economy has already begun to stagnate.

But they believe Alaska is being unnecessarily "lumped into the same basket as Texas or Oklahoma," where lower oil prices are shutting down wells and throwing thousands of people out of work, Hawkins said.

Because of the markedly different structure of the oil industry here and because of large state savings accounts like the Alaska Permanent Fund, the state is in a far better position to cope.

"I don't really believe in my gut that

'depression' is an accurate analysis of what will happen in Alaska," Hawkins said.

Attempts to prevent the red-lining of the state already are under way. Groups of Alaska business leaders and politicians are joining ranks to speak to chambers of commerce, newspaper editorial boards, correspondent banks and other lenders in the Pacific Northwest.

On Monday, Gov. Bill Sheffield told a Seattle audience not to give up on the state. His comments came in a speech delivered during a day-long conference on Alaska sponsored by the Greater Seattle Chamber of Commerce.

The same day, Miller, Hawkins, Mike Burns, president of Alaska Pacific Bank, and Harold Heinze, president of ARCO Alaska Inc., met with officials of at least two Seattle banks.

Another swing through Seattle, Portland and Tacoma is planned for early May. Hawkins said Anchorage Mayor Tony Knowles, Assemblyman Dave Walsh and Ken Calhoun, vice president of the Anchorage Chamber of Commerce, may be part of the "speaking squad."

"I just think it's important that the Chamber of Commerce present a realistic picture as to the business climate in Anchorage. Even if it's not exactly optimistic, at least we can dispel some myths that retailers, banks and service industries are in severe financial distress," Calhoun said.

SB 281 - Interest Rate on State Loans

SECTIONAL ANALYSIS

SB 281 would affect all loan programs administered by the state or an instrumentality of the state.

Under the bill, interest rates would rise 1/2 percent per year until they equalled:

- (1) the prevailing market rate or
- (2) the cost of borrowing money if the loan program is financed by the sale of bonds or other indebtedness.

Effective date is October 1, 1986.

8B 281

News
4-10-86

Tightening the belt

Senators seeking ways to balance the budget have returned to the idea of raising interest rates on state loans. The Senate's latest proposal is contained in a bill passed Wednesday that gradually would raise the interest rates on state loans — except housing and student loans — until they match market rates.

It's a good idea, although only one of many steps needed to meet Alaska's tightened budget restrictions. The state's loan program is among the most liberal in the nation. And the low interest provisions have been especially generous. It's not unfair in this time of declining revenues to reduce the state subsidy by gradually raising the rates.

The state, as Sen. Rick Halford pointed out, is no longer in a position to act as financier for all Alaskans. The House should act swiftly on the Senate's proposal.



FREE

Federation's Role in our Enterprise Economy

April 13, 1985

Senator Rick Halford
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Halford,

We are pleased to write this letter in support of SB 281.

We understand that the bill will raise interest rates on all State loan programs by one-half percent per year until they reach the going market rate for commercial loans.

The AWC FREE Committee's Tax and Economic Development subcommittee has completed a two year study of the State loan programs and recently published the enclosed position paper.

Passage of SB 281 would achieve three of our recommendations:

- Strive for reduction and eventual elimination of State dollar contributions to loan programs,
- Refine present programs to make them self supporting and revolving,
- Eliminate interest subsidies.

Indirectly, the bill would affect our other recommendations.

One of the positive aspects of SB 281 is the bill's equitable treatment of all State loan programs. This feature recognizes the decline in State revenues and the effect of less available funding for all loan programs. We realize that loan recipients are not equally divided among the programs and that the AHFC program services the largest share of recipients.

The AHFC program should be able to continue without subsidy. AHFC has been structured to become self supporting and has received diminishing appropriations for interest subsidies. Elimination of subsidies in a gradual manner should improve AHFC's ability to operate independently. As AHFC's interest rates approach market rates, demand will increase for other housing loan programs. Increased competition in the housing loan market should result in lower market interest rates.

The subcommittee has produced a twenty minute video entitled "Decisions for the 90's" reviewing the loan programs of Alaska and presenting the FREE Committee's recommendations. We are enclosing it for presentation as testimony at hearings concerning SB 281.

If we can be of further assistance, please contact Sarah Schierhorn (279-5305) or Pam Lambe (349-6531) co-chairmen of the committee responsible for the position paper.

Sincerely,

A handwritten signature in cursive script that reads "Pauline Martens".

Pauline Martens, Chairman
AWC FREE Committee

STATE SUBSIDIES

\$49,446.5: Subsidy for the following loan funds.

- Student
- Teacher Scholarship
- Commercial Fishing
- Child Care Facility
- Bulk Fuel
- Power Project
- Rural Electrification
- Alternative Energy
- Fisheries Enhancement
- Historical District
- Mining Loan
- Residential Energy Conservation
- Power Development
- Agriculture
- Grain Reserve
- Housing Assistance

(See Attachment 1. Source: OMB)

\$26 million: AHFC loans are currently at market rate. If the market rate were to rise and AHFC loan interest rates were to increase 1/2 percent, as provided in the bill, the state would save \$26 million per 1/2 percent increase.

(See Attachment 1. Source: AHFC April 1985 comparison of loan program as modified by SB 281).

1983 GOVERNOR'S TASK FORCE RECOMMENDATIONS
(See Attachment 2):

In a report published in January 1983, the Loans Task Force made 26 recommendations toughening up the state loan system. Of particular interest to this bill is the narrative for Recommendation # 17:

"It was also felt that subsidies should be used rarely and mostly for social purposes rather than for economic development.

"This is because subsidies may have unintended effects, may promote an economy dependent on unrealistically cheap money, and may encourage a high debt structure which would make the economy more vulnerable if the programs were cut." (emphasis added)

Other Task Force recommendations regarding subsidies:

Recommendation # 14:

"The Task Force recommends...that it is the policy of the State not to subsidize the interest rates on loans to borrowers...unless the decision to do so is stated explicitly and is based on social and/or economic development objectives."

"The Task Force felt that there was no explicit policy concerning subsidized interest rates...Subsidies developed in recent years as market rates rose above statutorily fixed loan rates...No general policy of the state is apparent."

Recommendation # 15:

"The Task Force recommends that any explicit decision to subsidize the interest rates on loans under any program be reconsidered at least once every two years and either be rescinded or reaffirmed."

Recommendation # 16:

"The Task Force recommends that programs which include a State subsidy, either through lower loan rates or deferred payments, should continue to report annually an estimate of the cost of the subsidy."

"The Task Force felt that it is wise to state explicitly reasons for a subsidy and estimated costs of the subsidy in order to monitor the continued appropriateness of the subsidy. Requiring that subsidies be reconsidered every two years would avoid the possibility of unintended program effects resulting from a lack of review."

Recommendation # 17 would tie interest rates on loans funded by appropriations to the U.S. Treasury yield curve.

(Source: Loans Task Force, A Report on Organizational and Policy Issues for Governor William J. Sheffield, January 1983).

A LOOK AT LOAN PROGRAMS TODAY:

1. There are 33 state loan programs. (See Attachment 3).
21 are active (presently making or servicing loans)
12 are inactive (no money appropriated this quarter).
2. Delinquency and Default rates. (Delinquency: loans that are more than one day past due. Default: turned over to counsel.) 1st Quarter, FY86. (See Attachment 4).

Mining Loan Fund:	57.6%	(\$11,303.0)
Agriculture RLF:	34.6%	(18,505.8)
Small Business RLF:	34.4%	(12,190.0) <i>Inactive</i>
Bulk Fuel RLF:	31.8%	(320.0)
Scholarship RLF:	16.1%	(38,217.4)
Commercial Fishing RLF:	14.7%	(11,358.0)
Veterans RLF:	10%	(8,381.0) <i>Inactive</i>
3. Money outstanding: \$6,686,786,814 (See Attachment 5)

Housing:	5,502,516.9
Economic Development:	\$710,378.2
Education:	\$236,718.9
Muni assist/misc:	186,586.2
Energy:	50,585.5
4. Seventeen of the 21 active programs are financed by state appropriation. AHFC, AIDA, Medical Facility Authority, Municipal Bond Bank Authority are financed by bonds.
5. The largest number of all loans outstanding is for Education. The greatest dollar amount of all loans outstanding is for Housing.

Breakdown by NUMBER:

Education:	95,359 loans approved:	59.7%
Housing:	54,590 loans approved:	34.2%
Economic Dev.	6,314 loans approved:	4.0%
Energy:	3,362 loans approved:	2.1%
Muni Assist/misc:	130 loans approved:	.1%

Breakdown by DOLLAR AMOUNT:

Housing:	\$5,502,516.9	82.3%
Economic Dev.:	\$ 710,378.2	10.6%
Education:	\$ 236,718.9	3.5%
Muni Assist/misc:	\$ 186,586.2	2.8%
Energy:	\$ 50,585.5	.8%

(See Attachment 6)

AHFC

Appropriations to date: \$747,871,000 in cash
(exclusive of \$16,000,000
appropriated FY85 but rescinded.)
(See Attachment 7)

Loans owned 1/86:

Number: 53,380
Amount: \$4,488,874,381

Outstanding loan commitments 1/86:

Number: 750
Amount: \$75,457,410

Loans delinquent and in foreclosure:

Mobile Homes: 11.35%
Conventional: 6.72%

Real Estate owned:

Mobile Homes: 4.50%
Conventional: .76%

(See Attachment 8)

Minimum Income Requirement for \$90,000 Conventional Loan:

Monthly: \$ 3,760
Yearly: \$45,120

Snapshot of the most common AHFC loan (conventional 1st mortgage) 1/86. (See Attachment 9)

Sales price:	\$124,969
Loan:	\$109,774
Monthly income:	\$ 4,628
<u>Annual income:</u>	<u>\$ 55,536</u>
Monthly pymts:	\$ 982.44
Interest rate 1/86:	10.23%

Requirements for a HOF (low income) buyer:

Maximum allowed value of house:

2 adults: \$ 80,000
4 people: \$100,000

28% of income must be available for housing.
Limit on assets: \$50,000, 1st member; \$5,000 next mbrs

UNDERWRITERS' FEES

Total AHFC bonds issued in 1985:	\$604,935,000
Underwriters paid percentage discount on bonds:	7 percent
Earned in 1985 from AHFC bonds by underwriters:	\$4,228,000

The State's bond counsel and underwriter counsel are paid a percentage of issuance.

MANAGING UNDERWRITERS:

Salomon Brothers, Inc.
Goldman, Sachs & Co.
E.F. Hutton & Co.
Kidder, Peabody & Co.
Merrill, Lynch Capital Markets

UNDERWRITER COUNSEL:

Cravath, Swaine & Moore

BOND COUNSEL:

Wohlforth & Flint

FINANCIAL ADVISOR:

Paine, Webber, Inc.

subsidycalc

FY87 SUBSIDY

OMB ESTIMATE

AGENCY/LOAN PROGRAM	FY87 LOAN VOLUME	STATUTORY INT RATE	TERM (YEARS)	YEARS OF DEFERMENT	LOAN LOSS/ FORGIVENESS	MARKET INT RATE	PRESENT VALUE	SUBSIDY	RATE OF SUBSIDY
Department of Education									
Alaska Student Loan Program	\$80,550.0	5.00%	10	2.5	11.0%	10.0%	\$44,857.6	\$35,692.4	44.3%
Teacher Scholarship Loan Program	477.0	5.00%	10	2.5	20.0%	10.0%	238.8	238.2	49.9%
Department of Commerce & Econ Dev									
Commercial Fishing Loan Fund	17,400.0	10.50%	15	0	0.3%	10.0%	16,422.8	977.2	5.6%
Child Care Facility Loan Fund	520.0	7.00%	20	0	.0%	10.0%	417.8	102.2	19.7%
Bulk Fuel Loan Program	1,900.0	8.00%	1	0	5.0%	10.0%	1,786.0	114.0	6.0%
Power Project Loan Fund	6,000.0	8.50%	50	0	.0%	10.0%	5,141.3	858.7	14.3%
Rural Electrification Loan Fund	2,215.5	2.00%	20	4*	.0%	10.0%	1,024.1	1,191.4	53.0%
Alternative Energy Loan Fund	2,200.0	5.25%	20	0	3.0%	10.0%	1,490.1	709.9	32.3%
Fisheries Enhancement Loan Fund	4,010.2	9.50%	30	6	.0%	10.0%	2,169.8	1,840.4	45.9%
Historical District Loan Fund	150.0	7.50%	30	0	.0%	10.0%	119.5	30.5	20.3%
Mining Loan Fund	4,000.0	10.00%	15	0	35.0%	10.0%	2,600.0	1,400.0	35.0%
Residential Energy Cons Loan Fund	577.5	10.00%	10	0	6.0%	10.0%	542.9	34.7	6.0%
Power Development Loan Fund	7,000.0	8.00%	50	0	.0%	10.0%	5,666.7	1,333.3	19.0%
Department of Natural Resources									
Agriculture Loan Fund	9,000.0	8.00%	5.8	.16*	10.0%	10.0%	7,511.4	1,488.6	16.5%
Grain Reserve Loan Fund	1,056.0	8.00%	3	0	.0%	10.0%	1,023.7	32.3	3.1%
Department of Community & Reg Affairs									
Housing Assistance Loan Fund	38,000.0	9.00%	30	0	.7%	10.0%	34,597.3	3,402.7	9.0%
TOTAL	\$175,056.2						\$125,609.7	\$49,446.5	28.2%

*Interest deferments only

FOOTNOTES:

- (1) The Office of Management & Budget has developed this chart to identify the estimated subsidy entailed by the Governor's FY87 Loans Budget as required by the legislative intent in SLA 1985, Ch.90, Page 11, Lines 5-7, which reads as follows: "4. Determine the degree of subsidy in each loan program and include this as part of the FY87 loan budget."
- (2) See the FY87 Budget Instructions for detailed instructions regarding the calculation of present value and subsidy.
- (3) For the ANFC subsidy estimate, see the loan forms submitted by the Corporation.

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ATTACHMENT 1

APRIL 85
ATTACHMENT 1

ALASKA HOUSING FINANCE CORPORATION

Summary of Exhibit A

<u>Current Programs</u>	<u>Bonds Issued</u>	<u>Est. Mtg. Demand All Programs</u>	<u>Related Subsidy Transfers</u>	<u>Revolving Fund Liquid Assets (General Account) End of FY</u>	<u>Level of Subsidy</u>
FY 86	800	785	152	172	3%
FY 87	500	792	92	104	3%
FY 88	550	824	98	28	3%
FY 89	550	870	122	27*	3%

<u>As Modified By SB 281</u>	<u>Bonds Issued</u>	<u>Est. Mtg. Demand All Programs</u>	<u>Related Subsidy Transfers</u>	<u>Revolving Fund Liquid Assets (General Account) End of FY</u>	<u>Level of Subsidy</u>
FY 86	750	726	126	205	2-1/2% eff. 10-1-85
FY 87	425	634	45	198	2% eff. 10-8-86
FY 88	400	527	14	231	1-1/2% eff. 10-1-87
FY 89	150	480	-0-	287	1% eff. 10-1-88

NOTE: Above projections anticipate receipt of \$16 million FY 84 appropriation and retention of all assets of the Alaska Housing Finance Revolving Fund.

* Anticipates receipt of \$100 million appropriation in FY 89.

ATTACHMENT 2

STATE OF ALASKA

Loans Task Force

A Report on Organizational and Policy Issues

for

Governor William J. Sheffield

January, 1983

LOANS TASK FORCE

Mr. Mike Barry
National Bank of Alaska
P.O. Box 600
Anchorage, Alaska 99510

Mr. David Chatfield
Alaska USA Federal Credit Union
Pouch 6613
Anchorage, Alaska 99502

Bill Hickman
Enstar Natural Gas Company
P.O. Box 6288
Anchorage, Alaska 99502

Sally Smith
P.O. Box 7078
Ketchikan, Alaska 99901

Forest Paulson
Commercial Fishing &
Agriculture Bank
2550 Denali Street, Suite 1201
Anchorage, Alaska 99503

William Sykes
P. O. Box 839
Anchorage, Ak 99510

Terry Elder (Executive Director)
Department of Commerce and
Economic Development
Pouch D
Juneau, Alaska 99811

January 28, 1983

The Honorable William J. Sheffield
Governor
State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Sheffield:

It is a pleasure to submit to you the attached report of the Loans Task Force. We have evaluated the organizational and policy issues on which you asked that we focus, and have offered several recommendations.

While we hope that each of the recommendations will be helpful, we wish to emphasize the consensus of opinion regarding subsidization and privatization. We believe that subsidization as a general rule is not wise, but should be made only for explicitly stated social and/or economic development purposes. We also believe that the State should avoid competition with private financial institutions. We suggest that alternatives be investigated which not only will shift the burden of servicing to the private sector, but also will shift default risk.

The work of the Task Force has been individually challenging and interesting. The issues are complex and affect the economy of the State. The Task Force members wish to thank you for the opportunity to serve you and the citizens of the State, and would individually welcome the opportunity to assist you in the implementation of these recommendations.

Sincerely,



Dave Chatfield, Chair
Loans Task Force

Loans Task Force Membership

Mr. Dave Chatfield, Chair
Alaska USA Federal Credit Union
Anchorage, Alaska

Mr. Mike Barry
National Bank of Alaska

6-1132 274-4613
EAG in J.E.V.

Ms. Sally Smith
Ketchikan Chamber of Commerce

Mr. Bill Hickman 277-5551
Enstar

Mr. Bill Sykes
WILSYK Alaska, Inc.

Mr. Forest Paulson
Commercial Fishing and Agriculture Bank

Dr. Terry Elder, Executive Director
Office of Management and Budget

Resource Persons

Mr. Mark Lewis, Commissioner
Department of Community & Regional
Affairs

Mr. Allen Blune
Office of the Governor

Ms. Esther Wunnicke, Commissioner
Department of Natural Resources

Ms. Lennie Boston
Office of the Governor

Mr. Richard A. Lyon, Commissioner
Department of Commerce and Economic
Development

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INTRODUCTION

GOVERNOR'S CHARGE

On January 20, 1983, Governor Sheffield accepted the recommendation of the Business Management Task Force, and created the Loans Task Force.

The Governor requested that the Loans Task Force submit recommendations on several organizational and policy issues. In particular, the Governor listed the following five questions to be dealt with by the Task Force:

- I. Which loan programs should be consolidated into the Department of Commerce and Economic Development (DCEd), and which programs should not?
- II. What should be the organization structure dealing with loans within the DCEd?
- III. What should be the relationship of lending agencies to the DCEd?
- IV. What should be the involvement of the private sector in public lending programs?
- V. What should be the State policy toward the use of subsidized loan rates?

The Loans Task Force accepted the Governor's charge, and committed itself to recommending solutions to the Governor's five questions, while not limiting itself to those questions.

Summary of Recommendations

The following statements represent summarized recommendations of the Loans Task Force as discussed in detail in the body of the report. They are offered primarily for quick review. The numbers do not correspond to the numbers of the recommendations. Appropriate recommendation numbers are cited in parentheses.

1. The administration of almost all loan programs should be placed within the Department of Commerce and Economic Development. The two major exceptions are the Scholarship Revolving Loan Fund and the Housing Assistance Loan Fund (#1, 2).
2. Accounting and collection functions of all noncorporate direct loan programs should be consolidated (#3).
3. Loan programs with the Department of Commerce and Economic Development should be placed within a Division of Investment for administrative control and coordination, and a Division of Finance and Economics should be created to be a central resource unit for planning, research, program evaluation, and bonding (#4, 5).
4. The executive directors of public corporations should report to the commissioner of the appropriate department and serve at the pleasure of the Governor. Boards of directors should be replaced by one Loans Advisory Board of Directors (#6, 7, 8).
5. The State should avoid direct lending programs and competition with private financial institutions whenever possible (#9, 10).
6. The State should sell loans in its portfolio to private institutions and should discourage a public corporation from taking an ownership position in a private enterprise (#11, 12).
7. Alternatives to current program financing should be considered which may shift some default risk to the private sector. Alternatives include guarantee funds and privately placed CD's (#13).
8. The policy of the State should be not to subsidize loan rates in loan programs except for explicit social and/or economic development objectives. Subsidies should be reconsidered every two years and their estimated cost reported annually (#14, 15, 16).
9. Statutorily fixed loan rates in direct loan programs should be abolished. Loan rates should be tied to the U. S. Treasury yield curve plus an adjustment for risk and administrative costs (#17).
10. HAD/CRA should develop a Home Ownership Assistance Program, eliminate distinctions between urban and rural areas and develop an outreach program to serve all State loan programs (#18, 19, 25).

11. All agricultural lending should be done through one program in the Department of Commerce and Economic Development. Only qualified persons should be awarded agricultural land by the Department of Natural Resources, and the agricultural loan program should be for development only (#20, 21).
12. Changes in the Scholarship Revolving Loan Fund should include an increase in the loan rate and adaption of financial need criteria (#22).
13. Procedural and operational audits on programs not regularly audited should be conducted immediately and annually hereafter (#23, 24).
14. Any public officials' code of ethics regarding loan programs should prohibit any attempt to influence a program administrator's decision on loan applications and/or collections (#26).

1. -Which loan programs should be consolidated into the Department of Commerce and Economic Development, and which programs should not?

(Recommendation #1-#3)

Recommendation #1

The administration of the following loan programs are recommended to remain in their current departments:

- a. Scholarship Revolving Loan Fund (APEC, Department of Education)
- b. Memorial Scholarship RLF (APEC, Department of Education)
- c. Housing Assistance Loan Fund (HAD, Department of Community and Regional Affairs)
- d. Disaster Relief Fund (Office of the Governor)
- e. Outdoor Recreation Open Space (Division of Parks, Department of Natural Resources)
- f. Relocation Loan Fund (all agencies; inactive)

Recommendation #2

I. The following loan programs are recommended to be transferred to the Department of Commerce and Economic Development:

- a. Ag. Revolving Loan Fund (DNR)
- b. Ag. Land Sales (DNR, Division of Land and Water Management)
- c. Alaska Housing Finance Authority (Department of Revenue)
- d. Alaska Municipal Bond Bank (Department of Revenue)
- e. Fishery Prod. Rev. Loan Guar. Fd. (Department of Revenue, Division of Treasury)
- f. Alaska Gas Pipeline Authority (Department of Revenue)
- g. Alaska Med. Facility Auth. (Department of Revenue)

ii. The following loan programs, within the DCED, are recommended to be transferred to the Division of Loans (DCED):

- a. Ag. Land Clearing Loans (DCED, AAAC)
- b. Medical Malpractice Liability (DCED, Division of Insurance)

Recommendation #3

A centralized accounting and collections division should be created in the Department of Commerce and Economic Development to perform the accounting and collections functions for the direct lending programs in that and other departments.

Narrative for Recommendations #1 - #3

The Task Force identified 30 loan programs in 6 departments administered by 17 divisions or agencies. Most of the programs are in the DCED already. Under the current organization there are 12 programs in 5 departments administered by 11 divisions or agencies which are not in the DCED.

It is the opinion of the Task Force that the State would benefit from a consolidation of all lending programs within the DCED unless there are compelling reasons not to consolidate a program. There are several in-

instrumentalities and a loan guarantee program in the Department of Revenue that should be in the DCED. The largest of these instrumentalities are the Alaska Housing Finance Corporation and the Alaska Municipal Bond Bank. There is no compelling reason for these instrumentalities to be in the Department of Revenue. Their activities are linked closely to economic development, and consolidation into the DCED would bring into the same department all of the large bond issuing programs related to economic development. In the opinion of the Task Force this should allow for increased coordination between programs, and for sharing a common base of expertise for planning, research, and evaluation.

A particular need to consolidate agricultural lending programs is apparent. The Task Force noted that agricultural development planning is being conducted in the DCED while agricultural development lending is in the Department of Natural Resources (DNR). As a result, persons may acquire agricultural land in the DNR lottery and may obtain a land clearing loan from the Alaska Agricultural Action Council (AAAC), but may not obtain farm development loans from the Agricultural Revolving Loan Fund (ARLF) in the DNR. This can be solved by bringing the ARLF into the DCED in order to match planning and financing, and by ceasing the land clearing lending function of the AAAC. Thus, all of the agricultural lending would be done by the ARLF, and only persons who qualify for a development loan would qualify for a land clearing loan. The DNR would retain control of the lottery awards, but should have to coordinate with the ARLF to ensure that winners of the lottery can qualify for loans before finalizing the award. The land sales contract can be administered by the ARLF.

Of the 5 loan programs (excluding the Relocation Loan Fund) not recommended for transfer to the DCED, the largest are the Scholarship Revolving Loan Fund and the Housing Assistance Loan Fund. The Task Force found that there were solid reasons for leaving the administration for the lending functions of these programs in their respective departments. The Alaska Postsecondary Education Commission (APEC) can best coordinate the Scholarship Revolving Loan Fund with other student financial aid programs, and is also involved in determining the definition of a student and a program. The Housing Assistance Loan Fund should remain in the Department of Community and Regional Affairs due to that department's ability to act as a delivery system for the program. The Task Force recommends expanding the DCRA's role as a delivery system in recommendation #25 in the section with general recommendations.

However, while the Task Force recommends that their lending functions not be moved, it does recommend that the accounting and collections functions be consolidated into a Division of Accounting and Collections in the DCED. The Division of Loans and Veterans' Affairs in the DCED already has accounting and collections capabilities, as does the APEC in the Department of Education. Administrators of the Scholarship Revolving Loan Fund, the Housing Assistance Loan Fund, and the ARLF indicated interest in the idea of consolidating the accounting and collections functions. Along with its recommendation the Task Force cautions that this consolidation will require expert computer programmers to develop, and that the capability of the Division of Accounting and Collections must be developed prior to the transfer of responsibilities.

After the recommended reorganization, the 30 programs would be in 5 departments and 12 agencies or divisions. However, more would be concentrated in the DCED compared to the current organization with only 5 programs in 4 agencies or divisions in 4 other departments. The changes might be made more clear by reviewing Tables I through XIII which diagram the loan programs in the departments both currently and after the recommendations are implemented. Tables I through VI diagram the current organization, while Tables VII through XIII reflect the recommendations of the Task Force.

Table 1
Current Organization Summary

<u>Programs</u>	<u>Department</u>	<u>Divisions/Agencies</u>
18	1	6
1	1	1
5	1	5
3	1	3
2	1	1
1	1	1
<u>30</u>	<u>6</u>	<u>17</u>

Table II

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT (18)

Division of Loans and
Veterans' Affairs (12)

Economic Development

- D Commercial Fishing RLF
- D Fisheries Enhancement RLF
- D Mining LF
- D Alt. Tech. and Energy RLF

Social

- D Bulk Fuel RLF
- D Child Care Facility RLF
- D Historical Dist. RLF
- D Res. Energy Conser. Fd.

Inactive

- D Small Business RLF
- D Tourism RLF
- D Veterans' RLF
- D Water Resources RLF

Division of Insurance (1)

Social

- D Medical Malpractice
Liability RLF

Instrumentalities (5)

Economic Development

Int., I Ak. Ind. Dev. Auth.

- D Ak. Resources Corp.
- Ak. Power Authority
- D Power Project Fund
- D Rural Electrification
RLF
- D Ak. Agricultural Action
Council

D = Direct lending
I = Indirect Lending
Int. = Intermediary

Table III

MISCELLANEOUS SOCIAL PROGRAMS (2)

Office of the Governor (1)

D Disaster Relief Fund

All Agencies (1)

Relocation Planning Loans
(not counted in summary)

Table IV

DEPARTMENT OF REVENUE (5)

Division of Treasury (1)

Economic Development

I Fishery Product RL Guar. Fd.

Instrumentalities (4)

Housing

I Ak. Housing Finance Authority

Economic Development

D Ak. Municipal Bond Bank Auth.

Social

Int. Ak. Med. Facility Auth.

Inactive

Ak. Gas Pipeline Financing Auth.

Table V

DEPARTMENT OF NATURAL RESOURCES (2)

Division of Agriculture (1)

Economic Development

D Agricultural RLF

Division of Parks (1)

Social

D Outdoor, Rec. Open Space
and Historical Prop. Dev. Fd.

Division of Land & Water
Management (1)

Economic Development

' D Land Sales for Agri-
culture

Table VI

DEPARTMENT OF EDUCATION (2)

Instrumentality (2)

Social

Ak. Commission on Postsec. Ed.

U *Memorial Scholarship RLF

U *Scholarship RLF

Table VII
Organization Summary
After Reorganization

Programs

25
2
1
1
1
1
30

Department

1
1
1
1
1
1
5

Divisions

8
1
1
1
1
1
12

Table A11

The Department of Commerce and Economic Development

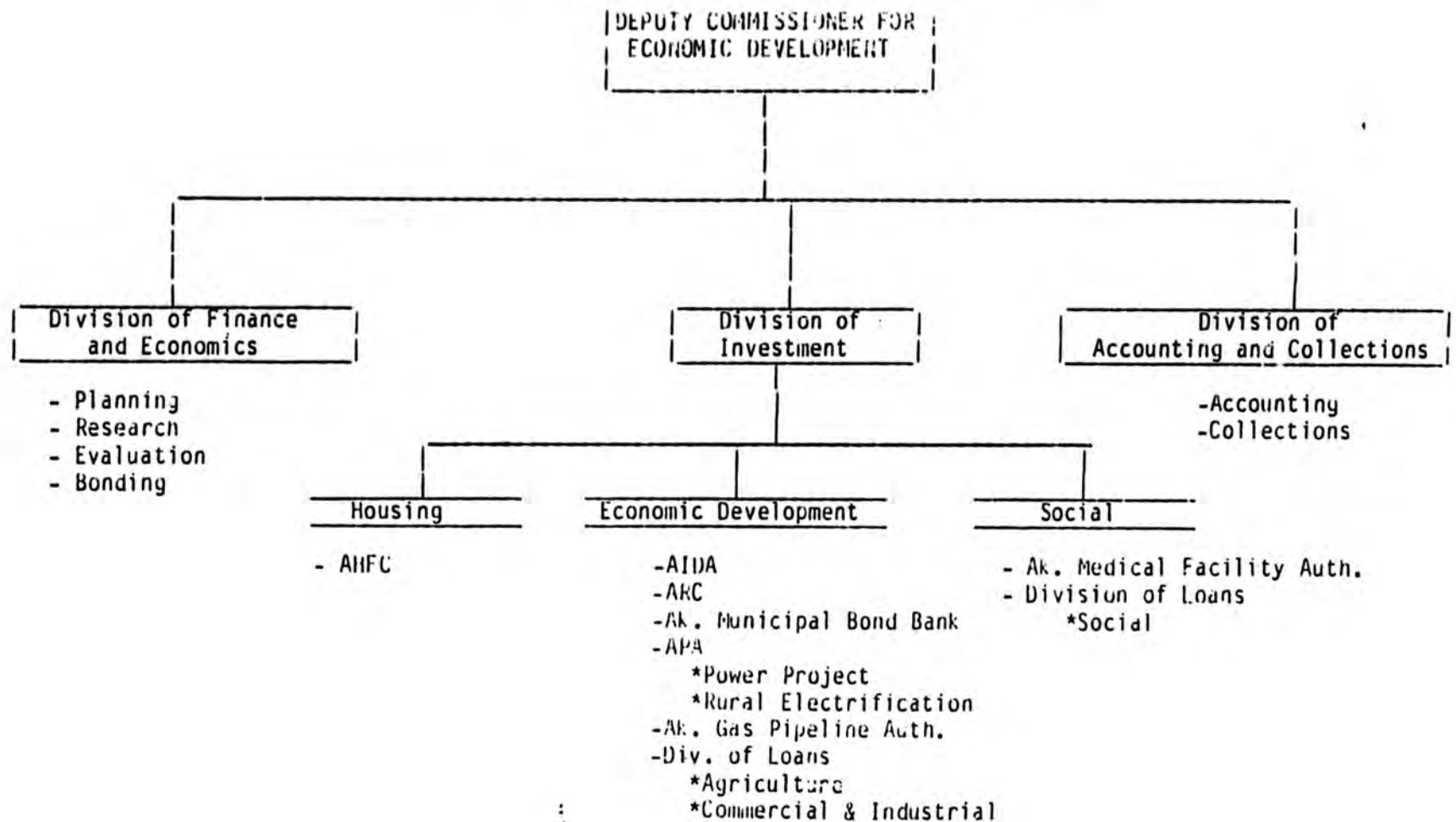


Table IX

DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT (25)

Housing (1)

Ak. Housing Finance Corp.

Economic Development (17)

Ak. Ind. Dev. Authority
Ak. Resources Corp.
Ak. Municipal Bond Bank
Ak. Power Authority
* Power Project Ed.
* Rural Electrification
Ak. Gas Pipeline Authority

Division of Loans

- * Agriculture Loans
 - Ag. Rev. Loan Fd.
 - AAAC Land Clearing
 - DNR Ag. Land Sales
- * Commercial & Industrial Loans
 - Comm. Fishing RLF
 - Fisheries Enhancement RLF
 - Mining LGF
 - Alt. Tech. & Energy RLF
 - Fish. Prod. Rev. Loan Guar. Fd.
 - Small Business RLF
 - Tourism RLF
 - Water Resources RLF

:

Social (7)

Ak. Med. Facility Authority

Division of Loans

- * Social Loans
 - Veterans Loans
 - Res. Energy Cons. RLF
 - Child Care Fac. RLF
 - Bulk Fuel RLF
 - Historical Dist. RLF
 - Med. Malpractice Liab.

Table X

DEPARTMENT OF EDUCATION (2)

Instrumentality

Social

Ak. Commission on Postsec. Ed.

- * Memorial Scholarship RLF
- * Scholarship RLF

Table VI

DEPARTMENT OF NATURAL RESOURCES (1)

Division of Parks (1)

Social

Outdoor Rec. Open Space and
Historic Prop. Dev. Fd.

Table XII

MISCELLANEOUS SOCIAL PROGRAMS (2)

Office of the Governor (1)

Disaster Relief Fund

All Agencies (1)

Relocation Planning Loans
(not counted in summary)

Table XIII

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS (1)

Division of Housing Assistance (1)

Housing

D Housing Assistance LF
(Nonconforming & rural)

- II. What should be the organization structure dealing with loans within the Department of Commerce and Economic Development?

(Recommendation #4 - #5)

Recommendation #4

The Task Force recognizes the right of each commissioner to shape his or her department as he or she thinks best. With that understanding, the Task Force recommends that, under a deputy commissioner in the DCED, there be created three divisions:

- a. The Division of Finance and Economics would be a central resource unit for planning, research, program evaluation, and bonding.
- b. The Division of Accounting and Collections would be a central accounting and collection facility for all direct lending programs in the DCED, and for those in other departments where appropriate.
- c. The Division of Investment would be an umbrella division containing all of the loan programs in the DCED.

Recommendation #5

The Task Force recommends that the Division of Loans and Veterans' Affairs be renamed the Division of Loans, with three subdivisions:

- a. Agricultural Loans
 - ARLF (from DNR)
 - AAAC Land Clearing
 - Ag. Land Sales (From DNR)
- b. Commercial and Industrial Loans
 - Commercial Fishing RLF
 - Fisheries Enhancement RLF
 - Mining Loan Fund
 - Alt. Technology & Energy RLF
 - Fishery Product Rev. Loan Guar. Ed. (From Dept. of Rev.)
 - Small Business RLF (Inactive)
 - Tourism RLF (Inactive)
 - Water Resources RLF (Inactive)
- c. Social Loans
 - Veterans' RLF (Inactive)
 - Residential Energy Conservation RLF
 - Child Care Facilities RLF
 - Bulk Fuel RLF
 - Historical District RLF
 - Medical Malpractice Liability (From Div. of Insurance)

Narrative for Recommendations #4 and #5

An organization chart reflecting the task force recommendations is shown on Table VIII above. The rationale for a Division of Accounting and Collec-

tions is outlined in Recommendation #3 and its narrative, and need not be repeated here.

The Division of Finance and Economics is recommended to accomplish several objectives. It would be a central resource group for the department for financial and economic analysis of its programs. It would develop a framework to provide a common direction for department programs. Working with the Division of Strategic Planning in the Office of Management and Budget it could develop action plans to achieve development objectives, and could monitor the programs' progress in meeting objectives. It could also be a source of supplemental staff support with bonding expertise for department agencies which issue bonds and for the State Bond Committee.

This division could collect and analyze industry data, and could work with development advocates within the DCED to develop action plans for the State's development. The financial expertise is a crucial part of any action plan. The program evaluation responsibility is crucial to monitor the effectiveness of a State-supported program. The Task Force recommends that program evaluation be an ongoing process rather than periodic efforts. Therefore, this Task Force is not recommending the addition or the elimination of programs. Rather, it recommends that this division perform an ongoing program of evaluation, and make suggestions for program changes.

The Task Force realizes that the Division of Investment is not an ordinary division because it is an umbrella division that includes lending groups which are themselves divisions. The Task Force believes that the person who fills the director position should be generally well-founded in banking and/or investment principles, and should be strong in management and coordination skills. This person would be an important resource for the commissioner and the deputy commissioner. Therefore, it is recommended that the DCED be flexible in determining the salary range for this position. In addition to being well-informed about the activities of each agency and program, the director should increase cooperation and coordination between programs, perhaps through regular group meetings of all directors and executive directors. This director probably should be located in Anchorage since most of the lending groups in the division are headquartered there.

The Task Force recommends the name change for the Division of Loans and Veterans' Affairs to the Division of Loans for the sake of simplicity. The Division of Loans would receive the Medical Malpractice Liability Revolving Loan Fund, the Fishery Product Revolving Loan Guarantee Fund and the agricultural lending responsibilities from other departments or divisions. However, the Task Force recommends that the agricultural subdivision of the Division of Loans continue to be located in Wasilla where it can work closely with the DNR and with its borrowers.

III. What should be the relationship of lending agencies to the Department of Commerce and Economic Development?

(Recommendation #6 - #8)

Recommendation #6

The Task Force recommends that the boards of directors of the following instrumentalities be eliminated:

- a. Alaska Housing Finance Corporation
- b. Alaska Industrial Development Authority
- c. Alaska Municipal Bond Bank
- d. Alaska Power Authority
- e. Alaska Gas Pipeline Authority (inactive)
- f. Alaska Medical Facility Authority
- g. Alaska Resources Corporation

Recommendation #7

The Task Force recommends that the Executive Directors of the agencies listed in recommendation #6 serve at the pleasure of the Governor and report to the Commissioner of the Department of Commerce and Economic Development as illustrated in Table VIII.

Recommendation #8

The Task Force recommends that the Governor appoint one Loans Advisory Board of Directors not to exceed seven persons, serving staggered terms, drawn from the private sector for diversity and expertise.

Narrative for Recommendations #6 through #8

The State has several public corporations and authorities attached by statute to certain departments. These public corporations and authorities issue bonds and make economic development decisions without a clear line of command between them and the departments to which they are attached. This would remain true even after the agencies are consolidated into the DCED as suggested in the section dealing with program consolidation.

The Commissioner of the DCED is only one of several board members on the boards of the Alaska Housing Finance Authority, the Alaska Industrial Development Authority, the Alaska Resources Corp., and the Alaska Gas Pipeline Authority (inactive). He is not on the board of the Alaska Municipal Bond Bank Authority or the Alaska Medical Facility Authority.

Being but one of several board members blurs the line of command and accountability from the Commissioner to the head of the agency. To the extent that this may allow agencies to become independent of the departments, several problems arise. First, bonding decisions, which may affect the State's credit and access to the bond markets, may be made outside of the control of the department. Second, economic development decisions may be made outside of the executive department of State Government. Finally, it is difficult for a commissioner to hold an agency head accountable when the commissioner is an active board member, and it is difficult to define the accountability of a commissioner when he or she is but one of several board members.

In order to clarify the chain of command and to improve control and accounta-

bility, the Task Force recommends that instrumentalities within departments not have controlling boards of directors. Rather, the head of the agency should report to the commissioner in such manner as the commissioner may determine. In order to provide the executive directors and the commissioner with advice and consultation on operations and control, the Task Force recommends that the Governor appoint from the private sector one advisory board of directors for all of the loan programs within the DCED. The Task Force members generally felt that the number of directors should be limited to seven, serving staggered terms and representing a broad range of expertise in lending, investments, computer automation, management, and control. It was felt also that the board of directors should receive travel expenses plus per diem, plus an honorarium of \$250 - \$400 per day of service. Finally, it was suggested that the Governor might request recommendations for appointment from appropriate professional associations in the State.

IV. - What should be the involvement of the private sector
in public lending programs?

(Recommendation #9 - #13)

Recommendation #9

The Task Force recommends that the State express a policy to the effect that it is the policy of the State not to compete with private financial institutions in its lending programs.

Recommendation #10

The Task Force recommends that, in accordance with the policy statement in recommendation #9, direct lending by State programs should not be encouraged, and should be utilized for social and/or economic development goals only when private sources of financing are not available under reasonably similar terms and conditions.

Narrative for Recommendations #9 and #10

The Task Force felt that State-supported loan programs should utilize the private sector for loan origination and servicing as much as possible. Also, it was felt that a direct loan program should follow a policy that it would not finance a borrower unless that borrower could not obtain reasonable private financing. However, it is recommended that this be carried out by policy directive which can be flexible rather than by statutory restrictions. Such a policy statement would require that alternatives to direct lending be considered and explicitly discarded before initiating a new direct lending program. These Task Force recommendations would support an investigation of contracting out to private firms the servicing of current loans held in the State's portfolio. However, it was felt that unless the State can contract out substantially all of the loan servicing it may not be economically feasible to contract out a portion due to high fixed costs the State would incur in servicing the remaining loans.

Recommendation #11

The Task Force recommends that private institutions be encouraged to purchase unpledged loans held in the State's direct lending portfolio under terms and conditions to be negotiated at the time between the private institution and the commissioner of the appropriate department.

Narrative for Recommendation #11

The Task Force felt that there are many instances where an applicant is considered too risky by a private lender, due perhaps to the lack of a credit or operating history. Once the borrower can demonstrate a favorable history on the loan, a private lender may be interested in purchasing the loan to gain access to a geographic area or to gain a future good customer. It would be advantageous to the State to sell its loans to a private lender to encourage private financial services to be made available everywhere, and to obtain a source of funds for new lending.

Recommendation #12

The Task Force recommends that the State express a policy to the effect that it is the policy of the State to discourage a State-supported agency or program from taking an equity (ownership) position in a private enterprise, except as a last resort to protect the State's existing investment in that enterprise.

Narrative for Recommendation #12

Members of the Task Force agreed that it is not desirable for a government agency to own or to have ownership of a private enterprise. Agencies which have the authority to acquire ownership interest should do so only as a last resort. Those agencies are encouraged to utilize flexible debt arrangements and royalty agreements to a large extent, and to avoid ownership.

Recommendation #13

The Task Force recommends that, where feasible, alternatives to direct lending by current programs be considered. These alternatives should attempt to shift default risk to the private sector as well as loan servicing responsibilities. Two such alternatives are discussed in the narrative.

Narrative for Recommendation #13

The Task Force felt that available evidence suggests that State direct and indirect lending have driven private financial institutions out of the Alaskan market. This is reflected generally in a decline in the loan/asset ratio and in a rise in the ratio of cash and investments to assets of private financial institutions. The Task Force also felt that simply using the private sector for origination and servicing is not preferable to developing a system which encourages the private sector to assume its traditional role of a profit-motivated risk taker. Even if the private sector originated and serviced all of the loans made by State-supported programs, it would not be raising and putting at risk its own capital.

The Task Force identified two alternatives to current programs that might be considered further. The first alternative would be to eliminate all lending programs and to replace them with loan guarantee funds similar to the Fishery Product Revolving Loan Guarantee Fund. If the State decides to subsidize the interest rate on a loan, it could do so by appropriating the difference between the interest that the borrower pays and the interest that the institution charges. The benefits of the procedure are that the private sector is raising the loan funds and lending them, and pressure on appropriations may be reduced.

If the fund guarantees less than 100% of the loan, the private sector shares the default risk with the State. While the Task Force does not recommend 100% guarantees, even if the fund were to guarantee 100% of the loan and would have to have an appropriation equal to the principal amount of the loans, the pressure on the State's budget would be eased in the long run unless all of the loans defaulted.

The Task Force identified some problems to be resolved. First, if subsidy payments are made to the private institution, it may create taxable income to the borrower. The Department of Law would have to clarify that. Second, any system that relies on the private sector to deliver the programs to the public must consider the delivery system to geographic areas not well served by private institutions. This may be solved by expanding the role of the Department of Community and Regional Affairs to be the main delivery system in rural areas as suggested in Recommendation #25. Finally, the private sector may not be able to offer long-term loans or flexible repayment schedules that are required in some circumstances.

The second alternative for consideration is that the State might devise a new system of financing loan programs. Rather than appropriating money to fund a loan as is now done in direct lending programs, it might be possible to appropriate money to fund the purchase of negotiated certificates of

deposit which private institutions could utilize as a funding source for the loans. The CD's would be dedicated for certain purposes with certain restrictions. Ownership of the loans would be held by the private sector which would also service them.

If the program requires deferred loan payments (such as the Mining Loan Fund), then interest payments on the CD would also be deferred. In addition, if the State desires, the CD could be pledged to guarantee a portion of the principal amount of the loan. In that case, the private sector would share a portion of the default risk with the State. For example, if the CD is pledged to guarantee 70% of the principal amount of the loan, in case of default, the institution would repay only 30% of the original CD less any previous principal payments. Essentially, the State would have to enter into a contractual agreement with private financial institutions whereby they would agree to make certain types of loans with certain terms. The institution would agree to pay the State the loan rate less a discount to cover administrative costs and profit.

The benefits of this alternative are that private institutions retain their sharp competitive edge since they retain default risk, and that the State provides a long-term source of funds for long-term loans. Other than the delivery system problem mentioned above, the primary problem identified by the Task Force is that it is possible that private institutions would be unwilling to enter into reasonable contracts. If that were the case, the State would have to continue its direct lending programs, but would do so with the assurance that there is no viable alternative.

V. What should be the State policy toward
the use of subsidized loan rates?

(Recommendation #14 - #17)

Recommendation #14

The Task Force recommends that the State express a policy to the effect that it is the policy of the State not to subsidize the interest rates on loans to borrowers through State-supported programs unless the decision to do so is stated explicitly and is based on social and/or economic development objectives.

Narrative for Recommendation #14

The Task Force felt that there was no explicit policy concerning subsidized interest rates in State loan programs. An examination of historical data suggested that most programs were created with loan rates that were at or above the U. S. Treasury yields. Subsidies developed in recent years as market rates rose above statutorily fixed loan rates. While a subsidy has been institutionalized in the programs of the Alaska Housing Finance Corporation, no general policy of the State is apparent.